BANK LEUMI LE-ISRAEL B.M. AND INVESTEE COMPANIES

Condensed Financial Statements
as at 30 September 2011

(unaudited)

Bank Leumi le-Israel B.M.
Head Office: Leumi House, 34 Yehuda Halevi Street, Tel Aviv 65546, Israel
Tel: (972) 3-5148111, Fax: (972) 3-5149732

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29 November 2011

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A. General Developments in the Group's Business

The Directors' Report has been prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. The principles applied in preparing the interim reports are consistent with the principles used in preparing the Annual Report as at 31 December 2010. Except as stated in note 1b to the financial statements as at 30 September 2011, the interim reports should be read in conjunction with the Annual Report for 2010.

Description of Leumi Group's Business Activities and their General Development

Total assets under the management of the Group (balance sheet items and off-balance sheet items*) amounted to some NIS 881 billion at the end of September 2011, as compared with NIS 889 billion at the end of 2010, a decrease of some 0.9%, resulting primarily from a decline in the capital market, partly offset by an increase in activity.

* Total balance sheet items plus securities portfolios of customers, the value of securities held in custody of mutual funds, balances of the funds of customers receiving consultation, provident funds, pension funds and supplementary training funds for which operational management and custody services are provided.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first nine months of 2011 amounted to NIS 1,273 million, compared with NIS 1,838 million in the corresponding period in 2010, a decrease of 30.7%, and in the third quarter of 2011, by NIS 155 million, compared with NIS 606 million in the corresponding period in 2010, a decrease of 74.4%.

Net operating profit attributable to shareholders in the banking corporation in the first nine months of 2011 amounted to NIS 1,271 million, compared with NIS 1,652 million in the corresponding period in 2010, a decrease of 23.1%. The decrease in the net operating profit amounting to NIS 381 million reflects the steep changes on capital markets whose main results were the recording of impairment in an investment in the shares of Partner Communications Co. Ltd. ("Partner") amounting to some NIS 239 million, net, and an increase in salary expenses arising from provisions to cover the losses in severance pay and provident funds amounting to some NIS 381 million, before the effect of taxes. On the other hand, the increase in net interest income partly offset the abovementioned effects.

Net operating profit in the third quarter of 2011amounted to same NIS 156 million, compared with NIS 606 million in the corresponding period in 2010, a decrease of 74.3%. The decrease in net operating profit amounting to NIS 450 million is primarily attributable to the recording of impairment in an investment in the shares of Partner amounting to NIS 239 million, net, and an increase in salary expenses amounting to NIS 254 million before the effect of taxes resulting from losses in severance pay and provident funds, an increase in expenses in respect of credit losses amounting to NIS 332 million before the effect of taxes and a decrease in net interest income amounting to NIS 154 million before the effect of taxes. On the other hand, the increase in the contribution of companies included on equity basis partially offset the abovementioned effects.

Net profit per share attributable to shareholders in the banking corporation during the first nine months of 2011 was NIS 0.86, compared with NIS 1.25 in the corresponding period in 2010, and NIS 0.11 in the third quarter of 2011, compared with NIS 0.41 in the corresponding period in 2010 and NIS 1.58 for the whole of 2010.

Based on data of the banking system as at 30 June 2011, as published by the Bank of Israel, Leumi Group's share of the total banking system was as follows:

	30.6.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
	In %					
Total assets	29.3	29.3	29.6	29.3	30.0	30.1
Credit to the public, net	28.8	28.9	28.3	29.1	29.7	29.8
Deposits of the public	29.5	29.5	29.9	29.8	30.2	30.5
Operating profit before tax	27.9	30.4	35.0	1.5(1)	37.9	27.5(2)
Net operating profit	27.9	29.8	35.8	- (3)	38.4	25.6(2)

(1) After neutralizing the losses of Bank Hapoalim.
(2) The decrease in the Group's share derives mainly from the volume of extraordinary salary expenses, approximately half of which arose from the privatization.
(3) There was an after-tax operating loss.

Control of the Bank

On 31 October 1993, the State of Israel became a shareholder of the Bank, under the Bank Shares Arrangement and the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 (the “Bank Shares Law”). As provided in the Bank Shares Law, the transfer of the shares in the Bank to the State and the exercise of the rights by virtue of the shares under this Law do not require a permit under the Banking (Licensing) Law, 1981.

On 30 September 2011 and on November 24 2011, the State of Israel held 6.028% of the issued share capital and 6.46% of the voting rights in the Bank as a result of the sale of 5% of the issued capital and voting rights in the Bank, on 19 January 2011 (see "Sale of shares in the Bank by the State" below) and the sale of some 0.43% of the issued capital and voting rights in the Bank by the State to the Group employees on 17 May 2011 (see "Sale of Shares to Employees" below).

Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 (hereinafter “the Bank Shares Law”)

The Bank Shares Law authorized the Shares Committee of the Bank to use for and on behalf of the State the voting rights by virtue of the State’s holdings in the Bank.

The Bank’s current shares committee was appointed by virtue of the provisions of the Bank Shares (Arrangement Shares) (Temporary Provision) Law (Appointment of Other Committees and Terms of Office) Directives, 2009, and, as stated in a resolution of the Public Committee for Bank Shares in the Arrangement, the term of its office is until 23 March 2012.

On 24 May 2011, the Annual General meeting of the Bank was held, with agenda including, *inter alia*, the election of four directors to the Board of Directors of Bank. Prior to 24 May 2011, all of the directors serving on the Board of Directors of the Bank had been appointed in accordance with the Bank Shares Law, with all the incumbent directors having been proposed at general meetings of the Bank by the Bank's Shares Committee, and the committee voting for them by virtue of the State's shares in the Bank. At the meeting, two directors, who had been proposed for election at the General Meeting by Shlomo Eliahu Holdings Ltd., and two directors who had been proposed for election at the General Meeting by the Bank's Shares Committee, were elected. The Supervisor of Banks confirmed that it has no objection to the appointment directors of all the candidates elected at the meeting – see "Annual General Meeting and Election of Directors" below.

From this, it may be learned that, as long as over 50% of the directors of the Bank are appointed in accordance with the Bank Shares Law, the State of Israel holds over 50% of one of the means of control of the Bank and in accordance with the presumption regarding the definition of control in the Securities Law, it holds control of the Bank, subject to the restrictions determined in the Bank Shares Law. It should be noted that there is also another interpretation. To the best of the Bank's knowledge, none of the holders of the means of control received a control permit. It should be further noted that Shlomo Eliahu Holdings holds 9.59% of the issued and paid-up of the Bank and the State of Israel through M.I. Properties holds some 6.03% of the issued and paid-up share capital of the Bank (see details below).

Sale of Shares in the Bank by the State

On 9 June 2010, the Minister of Finance requested the Knesset Finance Committee to approve the sale of up to 10.46% of the State's holdings in the Bank to financial entities for marketing to investors in Israel and abroad, as part of one or more competitive procedures ("block trade"). On 3 November 2010, the Finance Committee decided to approve the said request in principle, although any sale would be subject to the approval of the closed sub-committee of the Finance Committee. The said approval was in effect for six months commencing 30 November 2010.

On 19 January 2011, the Bank was informed by the Ministry of Finance of the completion of the sale in a competitive procedure (off-stock exchange) of 73,677,561 ordinary shares of NIS 1.00 par value each (constituting 5% of the Bank's issued share capital) owned by the State to UBS Limited, for consideration of NIS 17.611 per share (aggregate proceeds of NIS 1,297.5 million). Following the sale, 95,179,941 ordinary shares of NIS 1.00 par value each of the Bank, constituting 6.46% of the Bank's issued share capital, remain in the hands of the State.

On 17 May 2011, the Bank was informed by the Finance Ministry of the completion of the off-stock exchange sale of 6,339,730 ordinary shares of NIS 1.00 par value each of the Bank (constituting 0.43% of the issued share capital of the Bank), owned by the State to the employees of the Bank Group, in consideration of NIS 13.3002797 per share (a total of NIS 84.3 million). In addition, on 30 May 2011, the Bank was informed by the Ministry of Finance that on 29 May 2011 of the completion of the off-stock exchange sale to the Chairman of the Board of Directors of the Bank of 9,442 ordinary shares of NIS 1.00 par value each of the Bank (constituting 0.0006% of the Bank's issued capital), in consideration of NIS 13.37813 per share (aggregate total of NIS 126.3 thousand), following the approval of the Annual General Meeting held on 24 May 2011. The sale of the shares to employees, as aforesaid, is subject to the provisions of the outline prospectus published by the Bank on 6 April 2011.

Following the abovementioned sales, 88,830,769 ordinary shares of NIS 1.00 par value each of the Bank, constituting 6.028% of the issued capital of the Bank, was still held by the State.

It should be noted that, pursuant to the provisions of the outline prospectus, during the blocked period of the shares and as long as the State's shareholding percentage in the Bank exceeds 5%, an irrevocable power of attorney is given to vote by virtue of the shares sold as aforesaid, and to make use of the right to appoint directors by virtue of the shares. For further details, see "Sale of shares to employees", below.

It should be noted that on 5 January 2011, a proposed Banking Law (Legislative Amendments), 2011 was published, proposing, *inter alia*, to expand and amend the Banking Law (Licensing) and the Banking Ordinance, such that it will regulate the proposal of directors, appointments and their term of office in a banking corporation without core control. The proposal was approved on first reading in the Knesset and passed for discussion in the Knesset Finance Committee.

If and when the State reduces its holdings in the Bank to 5% or less and the Proposed Banking Law (Legislation Amendments), 2011, is passed, then the directors will be appointed in the Bank according to the format outlined in the abovementioned proposed law, as described on pages 46-48 to the 2010 Annual Report.

Sale of Shares to Employees

In accordance with the agreements concerning the privatization of the Bank, and in accordance with agreements reached between the Accountant-General in the Finance Ministry and the employees of the Bank, on 6 April 2011, an outline prospectus for the offer by the State of Israel of the Bank's shares to employees of the Bank, Arab-Israel Bank Ltd., Leumi Mortgage Bank Ltd., and the Restaurant Association of Employees of Bank Leumi Le-Israel (registered association) ("the participants", "the outline prospectus") was published.

On 17 May 2011, the purchase by the participants was completed, in accordance with and subject to arrangements and conditions detailed in the outline prospectus, 6,339,730 shares held by the State of Israel representing 0.43% of the Bank's issued and paid-up share capital of the Bank, as at the date of publication of the outline prospectus. On 24 May 2011, the General Meeting of the Bank approved the offer of 9,442 shares to the Chairman of the Board of Directors of the Bank, and the grant of a loan by the Bank to purchase the shares. On 30 May 2011, the Bank was informed by the Ministry of Finance that on 29 May 2011, the sale of the shares to the Chairman of the Board of Directors was completed.

The price per share for purposes of the offer to participants according to the outline prospectus was NIS 13.20825 per share as at 19 January 2011, and this share price was linked to the consumer price index using the "last known index" method, with the base index being the index for the month of December 2010, that was published on 14 January 2011. The share price was NIS 13.3002797. (The price of the shares purchased by the Chairman of the Board of Directors was NIS 13.37813).

The allocation of shares to the participants and determining the number of shares offered each participant was made relative to the salary serving as a basis for social provisions for those participants for the month of January 2011, in accordance with the terms of the outline prospectus. The Chairman of the Board (as stated above) and the President and CEO of the Bank are included in the participants.

The shares are blocked for a period of four years from the determining date (as defined in the outline prospectus), and are deposited with a trustee.

In addition, the Audit Committee and the Board of Directors approved the granting of loans to the participants for the purchase of the shares offered in the outline prospectus.

The value of the benefit to the employees and to the Chairman of the Board of Directors in respect of the aforesaid purchase, which was assessed by an external valuer, includes a number of components and amounts to some NIS 13 million. This amount was recorded as a salary expense. A benefit of NIS 13 million was recorded in a net capital reserve.

To finance the purchase of the shares, the Bank extended loans to the employees who elected to receive them, amounting to some NIS 43 million, with repayment in a single payment at the end of the blocked period of the shares, of which loans amounting to NIS 12 million are linked to the consumer price index, bearing interest at 1.55%, and loans amounting to NIS 31 million are unlinked based on the prime rate less 0.75%. The loans are not under non-recourse conditions. The amount of the loans was deducted from the Bank's capital.

Annual General Meeting and the Election of Directors

In accordance with the Bank's articles, at the Bank's Annual General Meeting, four directors retire, as follows: Miriam (Miri) Katz, Adv., Mr. Rami Avraham Guzman, Yaakov Mishal, Adv., and Mr. Zvi Koren.

On 24 May 2011, the Annual General Meeting of the Bank was held and the incumbent director, Miriam (Miri) Katz, Adv., was re-elected and Mr. David Avner and Mr. Amos Sapir were elected to serve as new directors of the Bank.

Ms. Zipora Samet was elected to serve as external director in the Bank, pursuant to the Companies Law, 1999, for a period of three years.

Ms. Samet and Mr. Sapir were proposed for election at the Annual General Meeting by Shlomo Eliahu Holdings Ltd. Mr. Avner and Ms. Katz were proposed for election at the Annual General Meeting by the Bank's Shares Committee.

The Supervisor of Banks has confirmed that he has no objection to the appointment as director of all of the candidates elected at the meeting. As a result, the term of office of Ms. Samet and Mr. Avner commenced on 25 July 2011, while the term of office of Mr. Sapir commenced on 31 October 2011, at the end of the cooling-off period which he is obliged to fulfill as an external director according to Proper Conduct of Banking Business Regulation 301.

Resolution of the Board of Directors of the Bank and the Special General Meeting

The Audit Committee of the Board of Directors, and thereafter, the Board of Directors of the Bank, at its meeting in September 2011, recommended to the General Meeting to amend the Bank's Regulations as set forth below and to revise and amend the letters of indemnity given by the Bank to the directors. In addition, the Audit Committee and the Board of Directors approved the giving of indemnification to all of the Bank's employees for expenses and/or payment to a victim of a breach pursuant to and subject to the provisions of the Improvement of Enforcement Procedures in the Securities Authorities Law (Legislative Amendments), 2010 ("the Improvement of Enforcement Procedures Law").

On 30 October 2011, a special meeting of the Bank was held. The Special meeting approved the following resolutions:

1. To amend Rule 143 of the Bank's Regulations regarding insurance, indemnification and exemption with the aim of enabling the bank to indemnify and/or insure officers in the Bank in accordance with the Improvement of Enforcement Procedures Law, according to the amended version, published by the Bank in an immediate report regarding the convening of and the general meeting on the distribution website of the Securities Authority (Magna) on 22 September 2011.

2. Pursuant to the resolution of the general meeting as set forth in item 1 of the agenda, to approve an amendment to the version of the letter of indemnification granted by the Bank to directors according to which the obligation to indemnification in advance will also be in respect of expenses and/or with regard to the payment to the victim of a breach according to and subject to the provisions of the Improvement of Enforcement Procedures Law, in the amended version published by the Bank in an immediate report regarding the convening of and the general meeting on the distribution website of the Securities Authority ("Magna") on 22 September 2011.

3. To approve additional revisions and amendments to the version of the indemnification letter granted by the Bank to directors including according to amendment no,. 14 of the Companies Law, 1999, and including a revision of the appendix of events, which, in the opinion of the audit committee and the Board of Directors, are expected in the light of the Bank's actual activity, and this, paying attention, to the changes and developments in the nature and scope of the legal risks applicable to the Bank and the Group, and all as set forth in the version of the amended indemnification letter published by the Bank in an immediate report regarding the convening of and the general meeting on the distribution website of the Securities Authority (Magna) on 22 September 2011.

Capital Resources, Capital Adequacy and Transactions in the Shares of the Bank

Shareholders' equity of the Group attributable to the shareholders of the banking corporation as at 30 September 2011 amounted to NIS 22,771 million, compared with NIS 23,293 million as at the end of 2010, a decrease of 2.2%. Comparative figures of shareholders' equity have been restated as a result of the directive of the Supervisor of Banks to make a provision in respect of "employees expected to retire and the benefits they are expected to receive in excess of contractual conditions", see below on page 32, and on Note 1B(4). The decrease derives from the effect of the change in respect of the initial transition to a method of calculating the allowance for credit loss pursuant to the directives of the Supervisor of Banks which are based in International Accounting Standard FAS 114, from the impairment of the available-for-sale security portfolio and the distribution of the dividend recommended by the Board of Directors on 29 March 2011 and approved by the General Meeting on 24 May 2011. These changes were partially offset by the profit for the first nine months of the year.

The securities portfolio (nostro) is mainly comprised of bonds issued by governments, banks and foreign financial institutions, which generally represent the use of funds raised and available capital. Most of the securities portfolio is classified as available-for-sale securities, and is included in the balance sheet on the basis of fair value. The income is recorded in the profit and loss statement on an accrual basis, with the difference between the value on an accrual basis with regard to bonds, and on a cost basis with regard to shares, and the fair value being recorded directly as a separate item in shareholders' equity, after a deduction for the effect of related taxes.
In the first nine months of the year, net impairment of NIS 682 million, net (of which: NIS 288 million in the third quarter) was recorded in shareholders' equity in respect of this item, compared with an increase in value of NIS 264 million, net, in the corresponding period in 2010. (All of the amounts are net, after the related tax effect.)

For additional details, see below on page 63.

The total net accrued balance of adjustments in respect of securities held in the available-for-sale portfolio at fair value as of 30 September 2011 amounted to a negative sum of NIS 214 million (after the effect of tax).

According to the rules for computing capital adequacy – Basel II, the balance in respect of the adjustment of securities to fair value is taken into account in the computation of capital for the purposes of the minimum capital ratio.

Shareholders' equity relative to total assets reached 6.4% on 30 September 2011, compared with 7.1% on 31 December 2010.

Total capital relative to risk components according to Basel II reached 13.75% as of 30 September 2011, compared with 14.96% on 31 December 2010. This ratio is higher than the minimum ratio of 9% set by the Supervisor of Banks. Tier 1 capital reached 7.89% as of 30 September 2011. This ratio reflects the actual core capital according the definition of the Bank of Israel, compared with 8.43% at the end of 2010. This ratio is also higher than required as explained below.

For a detailed explanation, see pages 28-31 in the 2010 Annual Report.

Capital Adequacy Target

The Group's policy, as approved by the Board of Directors, is to maintain a level of capital adequacy that is higher than the threshold defined from time to time by the Bank of Israel and higher, in general, in relation to the banking system in Israel and at a rate similar to the long-term average in OECD countries.

The Group’s policy, which reflects its appetite for risk, in accordance with the above, includes long-term targets for an overall capital ratio of 14.0%-14.5% and a core capital ratio of 8.0%-8.5%.

In addition, targets that the Group is prepared to fulfill in the event of a stress scenario have been defined:

1. First Tier capital adequacy ratio should not be less than 6.0% at all stages of materialization of the scenario.

2. Overall capital adequacy ratio should not be less than 9.0% at all stages of materialization of the scenario. The capital base will be higher than the required risk capital (First Pillar + Second Pillar) at all stages of materialization of the scenario.

In a circular dated 30 June 2010, the Supervisor of Banks announced that the banks are required to adopt a capital policy for the interim period including a target for a core capital ratio (First Pillar capital excluding hybrid capital instruments). The target rate will be not less 7.5%. As of the date of the Report, this ratio stands in the Group at 7.89%, which is higher than the target prescribed by the Supervisor. It should be noted that Supervisor of Banks has announced that he intends to adopt the Basel III Directives with the required adjustments. The instructions are expected to be published during 2012, and in our assessment, banks will be required to maintain higher core capital ratios that currently required.

For further information on the subject of Basel III, see below on page 155.

As at 30 September 2011, Leumi Group has presented capital adequacy ratios which are slightly lower than the prescribed long-term capital targets, mainly as a result of the impact of the financial markets on the Group's capital, a reduction in capital in line with a directive of the Supervisor of Banks to make an allowance in respect of "employees who are expected to leave in the future with conditions in excess of contractual conditions", the initial implementation of the Group allowance for credit losses, and the effect of the devaluation of exchange rate against the dollar and the euro on risk assets.

In the fourth quarter, the Group raised NIS 1.94 billion of notes, which, subject to the approval of the Supervisor of Banks, will be regarded as Tier II capital. If the notes had been raised in the third quarter, Leumi's overall capital ratio would have complied with the specified capital targets.

The abovementioned capital adequacy ratio policy relates to future transactions of the Bank, and comes within the definition of “forward-looking information”. For the meaning of this term, see the section, “Description of the Banking Corporation's Business and Forward-Looking Information” in the Directors' Report on page 23 below.

Structure of capital components for the purpose of computing the capital ratio (Table 2 - Basel II)

	30 September 2011	30 September 2010	31 December 2010
	NIS millions		
Tier 1 capital:			
Shareholders' equity	**7,059**	7,059	7,059
Premium	**1,129**	1,129	1,129
Reserves	**14,840**	* 14,598	* 15,063
Capital reserves from share-based transactions and other capital reserves	**44**	10	35
Adjustments from translation of financial statements of companies included on equity basis	**(56)**	(498)	(460)
Loans to employees for the purchase of Bank's shares	**(31)**	(1)	(1)
Non-controlling interests	**343**	310	318
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	**(274)**	(298)	(246)
Unrealized losses, net, from adjustments to fair value of available-for-sale securities	**(214)**	-	-
Total Tier 1 capital	**22,840**	* 22,309	22,897
Tier 2 capital:			
45% of the amount of net profits, before the effect of relevant tax in respect of adjustments to fair value of available-for-sale securities	**-**	392	314
General provision for credit losses	**428**	428	428
Innovative and non-innovative hybrid capital instruments	**6,020**	5,885	5,911
Subordinated notes	**10,589**	* 11,223	11,217
Amounts deducted from Tier 2 capital	**(76)**	(138)	(154)
Total Tier 2 capital	**16,961**	* 17,790	17,716
Total capital base for purposes of capital adequacy	**39,801**	40,099	40,613

* Restated in accordance with a directive of the Supervisor of Banks. See note 1.b.4 below.

Capital adequacy - (Table 3 - Basel II):

Risk assets and capital requirements in respect of credit risk deriving from exposures to:	**30 September 2011**		30 September 2010		31 December 2010	
	Risk assets	Capital require-ments (3)	Risk assets	Capital require-ments (3)	Risk assets	Capital require-ments (3)
	NIS million					
Sovereign debts	**833**	**75**	1,077	97	798	72
Debts of public sector entities	**1,720**	**155**	1,836	165	1,874	169
Debts of banking corporations	**7,603**	**684**	6,889	620	6,384	575
Debts of corporations	**158,361**	**14,252**	144,703	13,023	143,939	12,955
Debts collateralized by commercial real estate	**18,879**	**1,699**	17,434	1,569	18,800	1,692
Retail exposures to individuals	**21,339**	**1,921**	21,242	1,912	21,707	1,954
Loans to small businesses	**9,661**	**869**	9,478	853	9,499	855
Housing loans	**29,197**	**2,628**	24,013	2,161	25,830	2,325
Securitization	**289**	**26**	374	34	267	24
Other assets (5)	**11,743**	**1,057**	10,456	941	10,802	972
Total in respect of credit risk (1) (5)	**259,625**	**23,366**	237,502	21,375	239,900	21,593
Risk assets and capital requirements in respect of market risk (1)	**9,184**	**827**	7,842	706	10,653	959
Risk assets and capital requirements in respect of operational risk (1) (2)	**20,749**	**1,867**	20,626	1,856	20,904	1,881
Total risk assets and capital requirements (4) (5)	**289,558**	**26,060**	265,970	23,937	271,457	24,433
Total capital base for capital adequacy (5)	**39,801**		40,099		40,613	
Total capital ratio (5)	**13.75%**		15.07%		14.96%	
Tier 1 capital ratio (5)	**7.89%**		8.39%		8.43%	

(1) According to the standardized approach, First Pillar only.
(2) According to the basic indicator approach.
(3) According to the 9% minimum requirement.
(4) Additional capital buffers were calculated in respect of the Second Pillar.
(5) Figures for 30 September 2010 and 31 December 2010 have been restated in accordance with the directives of the Supervisor of Banks, See below on page 33.

Below is the capital adequacy ratio on consolidated basis and for principal subsidiaries according to Basel II:

	30 September 2011	31 December 2010
	%	
Leumi – on consolidated basis	**13.75**	* 14.96
Leumi Mortgage Bank	**12.89**	* 13.92
Arab Israel Bank	**15.01**	* 14.61
Leumi Card	**14.40**	14.40
Bank Leumi U.S.A. (1)	**13.04**	13.52
Bank Leumi Switzerland	**26.1**	25.0

* Restated in accordance with the directives of the Supervisor of Banks See below on page 33.

(1) Not obliged to report in accordance with principles of Basel II. The figures are according to U.S. regulations.

Issue of Subordinated Capital Notes and Subordinated Notes

In August 2011, the effectiveness of a shelf prospectus published by the Bank in August 2009 expired.

In May 2011, a shelf prospectus was published by Leumi Finance Ltd, which issues debentures and subordinated notes for the Bank.

On 8 September 2011, Leumi Finance issued a total of some NIS 1.4 billion of subordinated notes in an expansion of Series L and M as follows:

Subordinated notes in the expansion of Series L amounting to NIS 1,142,941,000 par value (proceeds of NIS 1,144,083,941) are due to be repaid in one installment on 10 September 2017, are linked (principal and interest) to the consumer price index for July 2010 and bear interest at 2.6% per annum, payable on 10 September of each year from 2012 to 2017 (inclusive).

Subordinated notes in the expansion of Series M amounting to NIS 276,039,000 par value (proceeds of NIS 275,486,922) are due to be repaid in one installment on 10 September 2017, are not linked (principal and interest) to the any index and bear interest at 5.4% per annum, payable on 10 September of each year from 2012 to 2017(inclusive).

The subordinated notes have been approved by the Bank of Israel as lower Tier 2 capital.

On 10 November 2011, Leumi Finance issued a total of some NIS 2 billion of subordinated notes in an expansion of Series L and an issue of Series N as follows:

Subordinated notes in the expansion of Series L amounting to NIS 1,078,669,000 par value (proceeds of NIS 1,105,635,725) are due to be repaid in one installment on 10 September 2017, are linked (principal and interest) to the consumer price index for July 2010 and bear interest at 2.6% per annum, payable on 10 September of each year from 2012 to 2017 (inclusive).

Subordinated notes in the expansion of Series N amounting to NIS 860,745,000 par value are due to be repaid in one installment on 20 November 2020, are linked (principal and interest) to the consumer price index for September 2011 and bear interest at 3.4% per annum, payable on 10 November of each year from 2012 to 2020 (inclusive).

The subordinated notes have been approved by the Bank of Israel as lower Tier 2 capital.

Distribution of Dividend

Dividend for 2010

Further to the recommendations of the Board of Directors of the Bank and the approval of the General Meeting, the Bank distributed a cash dividend in 2010 amounting to NIS 1.4 billion. The dividend was paid in the following amounts and on the following dates: NIS 500 million in Nov 2010, NIS 500 million in January 2011 and NIS 400 million in June 2011.

Bank Leumi le-Israel B.M. and its Investee Companies
Principal Data of Leumi Group

	Jan. - Sep. 2011	Jan. - Sep. 2010*	Year 2010*
Income, expenses and profits (in NIS millions):			
Net interest income before provision in respect of credit losses	**5,582**	5,292	7,433
Provision in respect of credit losses	**349**	372	584
Total operating and other income	**2,821**	3,021	4,111
Total operating and other expenses	**6,225**	5,656	7,951
Of which: costs of privatization (issue of shares and options to employees)	**13**	-	(22)
Operating profit before taxes	**1,829**	2,285	3,009
Net operating profit attributable to shareholders of the banking corporation	**1,271**	1,652	2,151
Profit from extraordinary items after tax before attributing to non-controlling interests	**2**	186	183
Net profit for the period attributable to shareholders of the banking corporation	**1,273**	1,838	2,334
Net operating profit per share attributable to shareholders of the banking corporation (in NIS)	**0.86**	1.12	1.46
Net profit per share attributable to shareholders of the banking corporation (in NIS)	**0.86**	1.25	1.58
Dividends paid (for 2010)	**400**	-	1,000
Assets and liabilities at end of period (NIS millions):			
Total assets (total balance sheet)	**353,175**	330,802	328,322
Credit to the public, net	**237,315**	217,218	223,981
Securities	**38,356**	54,373	55,791
Deposits of the public	**267,249**	245,820	249,584
Debentures, notes, and subordinated notes	**28,573**	28,744	26,939
Shareholders' equity attributable to shareholders of the banking corporation	**22,771**	23,370	23,293
Major financial ratios in annual terms (in %):			
Credit to the public, net, to total balance sheet	**67.2**	65.7	68.2
Securities to total balance sheet	**10.9**	16.4	17.0
Deposits of the public to total balance sheet	**75.7**	74.3	76.0
Deposits of the public to credit to the public	**112.6**	113.2	111.4
Total shareholders' equity to risk assets according to Basel II (a)	**13.75**	15.07	14.96
Tier I capital to risk assets according to Basel II	**7.89**	8.39	8.43
Shareholders' equity (excluding minority interest) to total balance sheet	**6.4**	7.1	7.1
Net profit to average shareholders' equity (excluding minority interest) (c)	**7.5**	11.1	10.3
Net operating profit to average shareholders' equity (excluding minority interest) (c)	**7.5**	9.9	9.5
Rate of provision for tax on the operating profit	**36.3**	37.8	41.2
Expenses in respect of credit losses out of credit to the public (c)	**0.20**	0.23	0.26
Expenses in respect of credit losses out of total risk of credit to the public (c)	**0.13**	0.15	0.17
Net interest income before provision for credit losses to total balance sheet (c)	**2.11**	2.14	2.26
Total income to total assets (b) (c)	**3.18**	3.36	3.52
Total income to total assets managed by the Group (b) (c) (d)	**1.27**	1.31	1.30
Total operating and other expenses to total assets (c)	**2.36**	2.29	2.42
Total expenses to total assets managed by the Group (c) (d)	**0.94**	0.89	0.89
Net profit to average total assets (c) (e)	**0.51**	0.76	0.73
Net operating profit to average total assets (c) (e)	**0.51**	0.68	0.67
Financial margin including income and expenses from derivative financial instruments	**0.98**	1.12	1.22
Operating expenses to total income (b)	**74.1**	68.0	68.9
Operating and other income to operating and other expenses	**45.3**	53.4	51.7
Operating and other income from total income (b)	**33.6**	36.3	35.6

* Figures for September 2010 and December 2010 have been restated in accordance with the directives of the Supervisor of Banks. See note 1 below.

(a) Shareholders' equity – after adding the interests of external shareholders and after deducting investments in the equity of companies included on equity basis and various adjustments.

(b) Total income - net interest income before expenses in respect of credit losses plus operating and other income.

(c) On an annual basis.

(d) Includes off-balance sheet activities.

(e) Average assets represent the total of income-bearing balance sheet assets and other assets.

B. Other Information

Principal Developments in the Economy(*)

General

In the first nine months of the year, the Israeli economy grew at an annual rate of some 5.2% in real terms compared with the corresponding period in 2010. However, comparison between the different quarters indicates a decreasing growth rate during the period. Thus, in the third quarter, the Israeli economy grew by 3.4%, in annual terms, in comparison to the second quarter, due to a slowdown in the rate of growth in private consumption and a sharp fall in Israeli exports. This followed growth rates of some 3.5% and some 4.7% in the second and first quarters, respectively.

The exchange rate of the shekel fell in January- September both against the dollar and against the euro. In particular, in the third quarter, there was a devaluation of some 8.7% in the rate of shekel against the dollar, against a background of signs of an economic slowdown in the world, adversely affecting the state of the Israeli economy.

The Israeli Consumer Price Index increased during the months of January – September by some 2.2%, with the annual rate of increase at September 2011 amounting to 2.9%, which is within the price stability target of 1-3%. During the period, the Bank of Israel continued the process of gradually raising interest rates. However, for October, it was lowered by 0.25 percentage points to 3.0% and retained at this level in November as well. The lowering of the interest rate is explained by the negative reversal in the world economy and the desire to support growth in Israel.

The share and convertible securities index fell during the first nine months of the year by some 24.9%, with the fall in the third quarter of the year amounting to some 15.7%. The main explanations for the fall in rates are the state of the world economy and the effect of the geopolitical situation in the region, alongside local effects, including the repercussions of the wave of social unrest and the security situation.

Committee for Encouragement of Competition

On 24 October 2010, the Prime Minister, the Finance Minister and the Governor of the Bank of Israel appointed a committee to increase competition in the market. The purpose of the committee was to examine the impact of the present structure of the holdings of the business groups on the Israeli economy and, in the light of this examination, to recommend desired policy measures, including legislative amendments and operative steps.

On 15 September 2011, the committee submitted interim recommendations. The committee established three teams; one, to examine the question of control of the non-banking companies in finance companies, another, to examine the issue of control in a public company through a pyramidal holding structure and the third, to examine the conditions for allocating public assets.

Among the committee's main recommendations were:

1. A separation between a holding in a material non-banking activity and in a material financing activity.

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* Data sources: publications of the Central Bureau of Statistics, the Bank of Israel, the Ministry of Finance and the Tel Aviv Stock Exchange.

2. A strengthening of corporate governance and a reinforcement of the minority shareholders in business groups in a pyramidal structure.

3. A change in the rules of the game in expanding pyramids and in control of existing companies.

4. A prohibition on double inclusion in the stock exchange indices and a prohibition on a future issue of duplicate activity in a gap company.

The committee has yet to submit its **final report** and is in the stage of obtaining views from the public.

The Bank is taking on board the significance and implications of the recommendations in the interim report on its activity.

Committee for Socio-Economic Change: The Trajtenberg Committee

In July and August 2011, there was a wave of protests throughout Israel, in which various claims were made by the demonstrators for alleviating the plight of the middle classes. On 10 August 2011, the Prime Minister appointed a professional committee, headed by Professor Manuel Trajtenberg, comprising professional personnel from within and outside of the government. The purpose of the committee was to formulate measures that would bring relief to the burden of subsistence in Israel.

On 26 September 2011, the committee submitted the report, which included recommendations in the area of the tax system, social services, competition and the cost of living, housing and fiscal policy.

On 30 October 2011, the Government approved the chapter in the committee's report on taxation.

The Bank is taking on board the significance and implications of the various recommendations, if they are adopted, on its activity.

The Global Economy

At the beginning of 2011, a wave of socio-political disquiet arose in a number of countries in the Arab world, characterized largely by violence, starting in Tunisia and followed by Egypt, Libya, Syria and other countries. As a consequence, geopolitical uncertainty with regard to the Middle East increased. Since then, throughout the world, there have been negative repercussions in financial markets, on the stock exchanges of the leading economies, in the exchange rates of emerging markets and in the prices of commodities (notably oil), etc.

In March 2011, there was a massive earthquake in Japan and as a result, tsunami waves engulfed part of the coast of Japan, The destruction suffered by some parts of Japan was severe, both for man and for infrastructure, the latter including nuclear reactors, causing substantial environmental damage, even far away from the area of the reactors. Preliminary estimates of the impairment to the Japanese economy indicate an adverse effect on growth in 2011, with a recovery in 2012, mainly led by investments in construction and infrastructure. The International Monetary Fund's September 2011 forecast for growth in Japan is 0.5% and 2.3% for 2011 and 2012, respectively.

At the beginning of August 2011, Standard & Poor's announced a downgrading of the credit rating of the United States from AAA to AA+. As a result of this downgrade and wild fluctuations in financial markets worldwide, on 6 August 2011, the Finance Ministry and the Bank of Israel announced that the possibility of a downgrade of in the credit rating of the United States had been taken into account for some time in macroeconomic policy and, to certain extent, it had even been priced in the markets of recent date. In addition, in the period from June – October 2011, the credit rating of a number of European companies, including Spain, Italy, Ireland, Greece and Cyprus, was downgraded. In addition, the rating forecast of these countries, as well as that of Belgium, was set as negative, On the other hand, on 9 September 2011, the company announced an increase in Israel's credit rating from "A" to "A+".

In September 2011, the International Monetary Fund revised its forecast for world growth for 2011, in comparison with the previous forecast published in June 2011, against the background of its evaluation that the world economy is at a new and dangerous stage. According to the Fund’s revised forecasts, growth in the United States and the Eurozone in 2011 is expected to be between 1.5%-1.6% respectively, a fall of one percentage point and 0.4 of a percentage point, respectively, compared to the previous forecast. This followed growth rates of 3.0% and 1.8%, respectively, in 2010. According to the Fund, global activity has weakened and become less balanced, confidence has fallen significantly recently and the downwards risks are increasing.

Business Product and Economic Sectors

The business sector product expanded in the first nine months of the year by a real rate of 5.7%, compared to the corresponding period last year. This reflects a continuation of the fast growth rate of the corporate sector, resulting in an expansion in employment and fall in unemployment, which, in August, according to trend data, reached some 5.6% by virtue of non-military employment, compared with some 6.2% in December 2010.

The Bank of Israel's survey of companies for the third quarter of 2011 indicated further expansion in business activity, there was a marked moderation in comparison to previous quarters, and even a fall in certain sectors. The Bank of Israel notes that expectations and orders for the coming quarter in most sectors, particularly in the industrial, business services and hotel services are low and sometimes even negative. This is against the backdrop of the increase reported by companies in the severity of the demand limitation, in general, and in the restriction of the economic situation around the world, in particular.

The State Budget and its Financing

During the first nine months of the year, the Government had a budget deficit, excluding the net provision of credit, amounting to some NIS 9.7 billion, in comparison to the planned deficit for the whole of 2011 deficit of some NIS 25.2 billion (about 2.9% of GDP). During this period, there was a cumulative tax collection shortfall amounting to some NIS 1.2 billion, compared to the target for the period, which originated in the third quarter. An analysis conducted by the Finance Ministry on the development of tax income indicates a stabilization of income from indirect taxes and a decreasing trend in income from direct taxes starting June 2011. An examination of Government expenditure indicates a rate of 69.8% in the period January – September, some 0.8% lower than the average performance rate until September in recent years.

Foreign Trade and Capital Movements

Israel’s aggregate trade deficit in the period, January – September 2011, amounted to some US$ 11.3 billion, compared to some US$ 4.6 billion in the corresponding period last year. This increase derives from an increase in the volume of imports, higher than the increase in exports. It is worth noting that in the third quarter, there was a reduction in exports compared with the second quarter, against a background of a slowdown in economic activity around the world.

Foreign currency capital inflows to Israel in the first nine months of 2011 were characterized by a surplus of capital inflows over outflows. In contrast to 2010, the weight of direct investments (investments of a strategic nature) compared to the weight of short-term financial investments (bonds and shares) increased. Thus, investments of foreign investors in Israel (direct investments through banks and financial investments) amounted to some US$ 6.7 billion and Israeli investors abroad, some US$ 2.4 billion.

A large part of the financial investments by foreign investors was in Government bonds, particularly in T-Bills (*Makam*). Bank of Israel data on the holdings of the foreign investors in T-Bills indicate that their weight continued to increase in the first half of the year, from some 28.3% at the end of December 2010 to some 34.6% at the end of June 2011. In the third quarter, against a backdrop of the change in the tax rules (see below), foreign investors reduced their holdings and their weight at the end of August 2011 amounted to 28.5% (approx NIS 34.4 billion).

On 19 January 2011, the Bank of Israel announced that it intended to apply the new reporting regulations relating to shekel/foreign currency swap transactions and foreign currency future transactions to Israeli and foreign residents. On 20 January, the central bank announced that from 27 January 2011, banking corporations in Israel would be subject to a 10% liquidity obligation on transactions in foreign currency derivatives of foreign residents, which would increase the cost of these transactions for customers. This was in light of the fact that, in recent months, there had been a substantial increase in the volume of transactions in foreign currency derivatives executed by foreign residents. A significant part of the increase derived from the short-term activity of the foreign residents. This measure was intended to strengthen the Bank of Israel's ability to achieve the monetary policy targets, foreign currency policies and financial stability. For details of the reporting regulations, see page 26.

On 27 January 2011, the Minister of Finance announced that he intended to take steps to cancel the tax exemption granted to foreign investors on profits arising from investment in T-Bills and short-term government debentures. Were it not for this exemption, those profits would be liable to tax at 15% or company tax, depending on the type of customer. The legislative processes relating to capital gains on the sale of securities have not yet been completed. Nevertheless, on 7 July 2011, the cancelation of the exemption for foreign investors in respect of interest/discounting fees, capital gains from future transactions, and income from a taxable trust fund, arising from investment in these securities, came into force.

Exchange Rates and Foreign Currency Reserves

In the first nine months of 2011, there was a devaluation of some 4.6% in the rate of the shekel against the dollar, (and in the third quarter the devaluation amounted to some 8.7%), while the shekel depreciated by some 6.5% against the euro. The weakening of the shekel against the dollar in the third quarter was attributable to signs of an economic slowdown around the world and in Israel, which led to an increase in the Israel's trade deficit and a transition from a current account surplus to a deficit in the balance of payments.

Foreign currency balances in the Bank of Israel at the end of September 2011 amounted to some US$ 76.3 billion. This compared with US$ 70.9 billion at the end of December 2010. During this period, the Bank of Israel purchased some US$ 4.6 billion in the foreign currency market, in an attempt to prevent a further strengthening of the shekel.

Inflation and Monetary Policy

During the first nine months of the year, the Israeli consumer price index increased by some 2.2%, while in the twelve months ended September 2011, it increased by some 2.9%. This rate is in the range of the Government's price stability target of between 1% and 3%. The largest contribution to the increase in the index in January – September was in the housing sector, which increased by some 6.3%. In October, the index increased by 0.1%.

In the first nine months of the year, the Bank of Israel continued the process of gradually increasing interest rates. Thus, the interest rate, which, in December 2010, stood at 2.0%, and in March 2011, at 2.5%, increased in the second quarter to June, to 3.25%, a level at which it stayed in September, according to the Bank of Israel. The interest rates for October 2011 was reduced to 3.0% and remained at this level in November also. The Bank of Israel attributed the change in the direction by a negative turnaround in the global economy and in the desire to support growth, with support achievable by bringing inflation back within the price stability target.

The increase in the prices of apartments, measured by the Central Statistical Bureau (though not constituting a part of the consumer price index) has led the Bank of Israel to take regulatory (macro-stability) measures in the period as an alternative to the direct increase of interest rates. These measures are intended to act to moderate demand for housing loans and to hold down price rises. For details regarding the new directives and the measures adopted by the Bank of Israel, see page 83.

Capital Market
The shares and convertible securities index fell by some 24.9% in the first nine months of the year, following a fall of some 15.7% in the third quarter. The TA-100 index fell by some 20.8% during the period, January – September. The main reason for the fall in prices was the global situation, particularly, the fear of a worsening of the sovereign debt and the state of the banking system in Europe and the uncertainty in the American market (including a downgrading of the United States' credit rating). To this can be added the impact of the geopolitical situation in the region, as well as local influences. In October, the share and convertible security index increased by some 7.1%.

Average daily trading volumes of shares and convertible securities fell in the period, January – September by some 9.9%, compared to the average for 2010, and amounted to some NIS 1,838 million. This fall was the outcome of a significant reduction in trading volumes in the second and third quarters of the year, compared with the first quarter.

The Government bond market in period, January – September, was characterized by price rises, in both index-linked and unlinked bonds. These increases occurred mostly in the third quarter of the year. The price of index-linked Government bonds increased by some 3.2%, while unlinked bonds rose by some 3.5% (the fixed interest (*Shahar*) bond indices rose by some 4.0% and the variable interest (*Gilon*) *bond* index increased by some 1.2%).

In the index-linked non-government debenture market (corporate bonds), there were falls in price of some 1.8% in the period, all of them in the third quarter of the year. This was against a backdrop of the fear of the possible implications of the geopolitical situation and an increase in uncertainty in the world economy for the background conditions of the activities of the Israeli business sector and the ability of companies to service their debt.

Financial Assets held by the Public
In the first nine months of 2011, the value of the portfolio of financial assets held by the public decreased nominally by some 3.3% to some NIS 2,449 billion. This fall in the value of the portfolio derived from a decrease in a fall in the value of the share component (the effect of a fall in market prices). The rest of the components of the portfolio increased in this period. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 21.2% at the end of September 2011, having been on a downward trend since the beginning of the year.

Total financial assets of the public managed by **the Group** (deposits of the public, debentures and capital notes, securities portfolios, including securities in the custody of mutual funds, provident and pension funds, and supplementary training funds for which operational management and custody services, as well as pension counseling, are provided) amounted to some NIS 823 billion at the end of September 2011, compared to some NIS 837 billion at the end of December 2010, a decrease of 1.6%.

Bank Credit
Bank credit in the economy granted to the private sector (before allowances for credit losses) from the end of January 2011 to the end of September 2011 increased by some 4.8%. This

was a consequence of an increase of some 8.0% in credit extended to the household sector (both credit granted for housing and consumer credit increased), compared to a slower increase of some 2.5% in the credit allocated to the business sector.

It is worth noting that in July 2011, the data on bank credit in the system published by the Bank of Israel for 2011 was retroactively revised, as a result of new regulations issued by the Supervisor of Banks relating to allowances for credit losses. Data on the debt of the business sector to banks, before allowances for credit losses, fell significantly as a result of accounting writing offs of impaired debts in accordance with the new regulation. In addition, in credit to the public (excluding housing), the figures for 2011 were revised downwards, albeit by lower rates. Consequently, the reporting of the rates of change since the beginning of the year (end-December 2010) is biased, and the change in bank credit in the market, before allowances for credit losses, in this report is from the end of January 2011.

The significant expansion in housing credit in the market (the rate of change in August 2010 – September 2011 was some 15.0%, a certain slowdown in comparison to the rate of growth measured in the previous quarter), which was accompanied by a significant increase in housing prices in Israel, led the Bank of Israel, as aforesaid, to take a number of macro-stabilizing measures, intended to act to restrain demand housing credit and hence, suppress price rises. For details of these measures, see page 83.

Credit to the public, net, in **the Bank** amounted to some NIS 149.7 billion at the end of September 2011, compared to NIS 143.4 billion at the end of December 2010, an increase of 4.4%. Housing credit in Leumi Mortgages increased in the first nine months of 2011 by 8.6%.

Foreign and local rating agencies' credit ratings

On 18 April 2011, Moody's announced that it was reducing Leumi's long-term credit rating in foreign currency and local currency from A1 to A2, with the rating outlook changed from "negative" to "stable", the background being a re-assessment of the Bank's financial solidity. The reduction in the Bank's rating was part of the reduction in rating of the five major Israeli banks.

On 9 September 2011, the Standard and Poor's rating agency announced an increase in the long-term foreign currency credit rating of the State of Israel from "A" to "A+". The increase in the rating reflects the company's assessment that there has been an improvement in the flexibility of economic policy in Israel resulting from the rapid growth and prudent macroeconomic management.

	Rating agency	Short-term rating	Long-term rating	Long-term ratings outlook	Last update
State of Israel's rating in foreign currency	Moody's	P-1	A1	stable	May 2011
	S&P	A-1	A+	stable	September 2011
	Fitch	F1	A	stable	May 2011
Leumi's rating in foreign currency	Moody's	P-1	A2	stable	May 2011
	S&P	A-2	BBB+	stable	May 2011
	Fitch	F2	A-	stable	July 2011
Leumi's rating in local currency	Moody's	P-1	A2	stable	May 2011
Leumi's rating in local currency for debentures and standard deposits	Ma'alot	-*	AA+	stable	May 2011
	Midroog	P-1	Aaa	stable	March 2011
Leumi's rating in local currency for subordinated capital notes	Ma'alot	-*	AA	stable	November 2011
	Midroog	-*	Aa1	stable	November 2011
Leumi's rating in local currency for subordinated capital notes (Upper Tier II)	Ma'alot	-*	(A+,A)**	stable	May 2011
	Midroog	-*	Aa2	stable	March 2011

* Not relevant
** A: Upper Tier II capital with compulsory conversion of principal into shares of the fund (rating updated in May 2011).
A+: "New" Upper Tier II capital, not convertible into shares (rating updated in May 2011).

Developments in Leumi Share Price

From the beginning of the year until 30 September 2011, the price of Leumi shares fell from some 1,752 points to 1,192 points, a decrease of some 32%. During this period, the Bank's market value fell from NIS 26.8 billion to NIS 17.6 billion.

The return on the share in the first nine months of the year was a negative 32.0%, compared with the Bank Index which fell by 34.6%, of this a decline of 25.5% in the third quarter, compared with a decline of 21.2% in the Bank Index.

From the end of September 2011 to 21 November 2011, the share price fell by 11.6% to a price of 1,054 points, and the market value reached NIS 16.2 billion.

The following table sets out details of changes in the CPI and in exchange rates:

	For the three months ended 30 September		For the nine months ended 30 September		For the year
	2011	2010	**2011**	2010	2010
	(in percentages)				
Rate of increase of the "known" CPI	**0.58**	1.23	2.75	1.62	2.3
Rate of increase (decrease) in the rate of the US dollar	**8.70**	(5.42)	4.59	(2.91)	(6.0)
Rate of increase (decrease) in the rate of the euro	**2.01**	4.83	6.45	(8.35)	(12.9)
Rate of increase (decrease) in the rate of the pound sterling	**6.10**	(0.38)	5.55	(5.08)	(10.1)
Rate of increase in the rate of the Swiss franc	**0.75**	4.64	8.87	2.31	3.3

The following table sets out the principal representative exchange rates:

	30 September		31 December	
	2011	2010	2010	2009
	In NIS			
U.S. dollar	**3.712**	3.665	3.549	3.775
Euro	**5.044**	4.987	4.738	5.442
Pound sterling	**5.798**	5.801	5.493	6.111
Swiss franc	**4.124**	3.752	3.788	3.667

The following table sets out the quarterly changes in the consumer price index and exchange rates.

	2011			2010			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)						
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**0.58**	1.27	0.9	0.65	1.23	1.34	(1.0)
Rate of increase (decrease) of the U.S. dollar exchange rate	**8.70**	(1.90)	(1.9)	(3.17)	(5.42)	4.36	(1.6)
Rate of increase (decrease) of the euro exchange rate	**2.01**	(0.10)	4.5	(5.00)	4.83	(4.67)	(8.3)
Rate of increase (decrease) of the pound sterling exchange rate	**6.10**	(2.35)	1.9	(5.31)	(0.38)	3.81	(8.2)
Rate of increase (decrease) of the Swiss franc exchange rate	**0.75**	7.62	0.4	0.97	4.64	2.82	(4.9)

General Environment and Effect of External Factors on Activities

Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report

The Directors' Report includes, in addition to data relating to the past, information that relates to the future, which is defined in the Securities Law, 1968 as “forward-looking information.” Forward-looking information relates to a future event or matter, the realization of which is not certain and is not within the exclusive control of the Bank.

Forward-looking information is generally drafted using words or phrases such as “the Bank believes”, “the Bank foresees”, “the Bank expects”, “the Bank intends”, “the Bank plans”, “the Bank estimates”, “the Bank's policy”, “the Bank's plans”, “the Bank's forecast”, “strategy”, “aims”, “likely to affect” and additional phrases testifying to the fact that the matter in question is a forecast of the future and not past facts.

Forward-looking information included in the Directors' Report is based, *inter alia*, on forecasts of the future regarding various matters related to economic developments in Israel and abroad, and especially to the foreign exchange and capital markets, legislation, directives of regulatory bodies, the behavior of competitors, technological developments and personnel issues.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that, in reality, events may turn out differently from those forecast, readers of the Report should relate to information defined as “forward-looking” with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of Leumi Group are likely to be materially different.

The Bank does not undertake to publish updates of the forward-looking information included in this Report.

This does not detract from the Bank’s reporting obligations pursuant to any relevant law.

Legislation affecting the banking system

Legislation and regulation in the field of pension counseling

Increase in Enforcement in the Capital Market Law (Legislative Amendments), 2010

On 17 August 2011, the Law for Increasing the Enforcement in the Capital Market was published, including provisions regarding an amendment to the Supervision of Financial Services Law (Counseling, Marketing and Pension Clearing System) ("**the Pension Counseling Law**") which deals mainly with the expansion of supervision and investigation authorities of the Supervisor of the Capital Market, Insurance and Savings in the Finance Ministry ("the Supervisor") and the expansion of monetary sanctions that the Supervisor is entitled to impose in respect of a breach of the Pension Counseling Law in cases of a continuing breach and a repeated breach.

Pension Clearinghouse

On 12 July 2011, the Supervisor of the Capital Market, Insurance and Savings in the Finance Ministry ("the Supervisor") announced his decision to issue a tender to grant a license to operate a central pension clearing system ("the system"), to gradually activate the various services stipulated in the law, including providing information to savers and clearing money. This is according to the authority of the Supervisor by virtue of section 31b(d) of the

Supervision of Pension Services (Counseling, Marketing and Pension Clearing System), 2005 ("the Counseling Law").

Pursuant to this announcement, the Supervisor clarified that he intends to compel the institutional bodies to join up to the system and that he intends to compel license holders as defined in the Counseling Law to join up to the system gradually, as far as this will be necessary for the purpose of ensuring the property activity of the pension savings market in Israel.

Computerized graphic signature circular

On 10 August 2011, the Supervisor of Capital Markets, Insurance and Savings in the Ministry of Finance published a "computerized graphic signature circular" which is intended to improve the method of transferring of documents from a license holder to an institutional body, to shorten the time for transferring the documents and to improve the service for the customer. The circular enables a license holder to make use of a computerized graphic signature for a customer signing documents as part of making a transaction, under the conditions set forth in the circular regarding the method of computerized graphic signature and regarding the method for locking documents which have been signed by a computerized graphic signature. The circular further provides that an institutional body will accept documents signed with a computerized graphic signature as a part of executing a transaction.

The effective date of the circular is 1 October 2011.

Draft Order for the Prohibition of Money Laundering (Identification, Reporting and Record-Keeping Obligations of Insurers, Managing Companies, Agents and Consultants, for the Prevention of Money Laundering and the Financing of Terrorism), 2011

On 3 July 2011, the Capital Markets, Insurance and Savings Division in the Ministry of Finance published the Draft Order for the Prohibition of Money Laundering (Identification, Reporting and Record-Keeping Obligations of Insurers, Managing Companies, Agents and Consultants, for the Prevention of Money Laundering and the Financing of Terrorism), 2011.

The draft order consolidates and combines under one framework the provisions of the Order for the Prohibition of Money Laundering (Identification, Reporting and Record-Keeping Obligations of Insurers and Insurance Agents), 2001 and the Order for the Prohibition of Money Laundering (Identification, Reporting and Record-Keeping Obligations of Provident Funds and a Managing Company of a Provident Fund), 2001. In addition, the draft order imposes on pension counselors the obligations of identifying, reporting, recording and preserving data relating to the opening of an account in a provident fund, entering a life assurance contract and executing transaction pursuant thereto.

Program to Increase Competition in the Pension Savings Market

On 27 March 2011, the Supervisor of the Capital Market, Insurance and Savings in the Ministry of Finance published a draft memorandum and a draft of regulations and circulars, as part of the program to increase competition in the pension savings market published in November 2010 and which is set out in more detail on page 43-54 in the financial statements for 2010.

Memorandum of Supervision of Financial Services Law (Counseling, Marketing and Pension Clearing System) (Amended), 2011

It is proposed to change the arrangement stipulated in the law, whereby a pension counselor which is a banking corporation is not permitted to engage with an employer, or with an employers' organization for the purpose of providing pension counseling services to an employee of that employer or to an employee of one who is a member of the employers' organization, by granting authority to the Supervisor of the Capital Market, Insurance and Savings to determine provisions for the purpose of the engagement of a pension counselor with an employer and employers' organization. It is further proposed to strengthen the protection of employees regarding pension counseling, and prevent a situation in which the employer forces the identity of the pension counselor on his employee, and enables a customer to choose the license holder who recommends him pension saving and prohibits the conditioning of service with service by the license holder. In addition, it is proposed to apply to the license-holder the debts to which the insurer is subject regarding the submission of reports and notices to the Supervisor of the Capital Market, Insurance and Savings.

Draft Supervision Regulations on Financial Services (Provident Funds) (Management Fees), 2011

This involves the application of a consistent model for ceiling for management fees in pension savings products from the class of provident funds and managers insurance, which will be gradually updated and the determination of the maximum rates of management fees in the pension savings products from the class of pension funds.

Draft Supervision Regulations on Financial Services (Provident Funds) (Distribution Commission), 2011

This involves the application of a consistent distribution commission model in all the pension savings products (except training funds) that will apply to both regular deposits and the accrual. It is proposed to determine that an insurer will also pay a distribution commission in respect of pension products which are under its management and in respect of which pension counseling has been provided to a customer.

Draft circular regarding management fees in pension savings instruments

This is intended to increase transparency regarding the rate of management fees collected in the context of pension savings and the determination of a prohibition on raising management fees that have been agreed with the client for at least two years.

Engagement of Institutional Body with License Holder Circular

On 13 July 2011, the Supervisor of the Capital Market, Insurance and Savings Division in the Ministry of Finance published the Engagement of Institutional Body with License Holder Circular, whose purpose is to regulate the treatment of deposits paid to an institutional body through a license holder.

The purpose of the circular is to reconcile the working procedures provided for dealing with insurance fees paid to an insurer through an insurance agent for any commitment between a license holder and an institutional body. Accordingly, the specification of the circular of general principles with regard to the receipt and transfer of deposits of various types, from policyholders, members and license holders to institutional bodies, including regulations for managing a trust account by a license holder.

In relation to a pension counselor which is a banking corporation ("the banking corporation"), the circular includes a special arrangement enabling the banking corporation to transfer deposits of pension insurance to a separate bank account before it is transferred to the institutional body ("suspense account") under the conditions stipulated in the circular.

Pursuant to the instructions of the circular, the banking corporation is prohibited from making any use of the deposits transfer to it, except to transfer it to the institutional body and for the policy holder for whom they were transferred to the license holder, and the banking corporation is prohibited from collecting deposits from policy holders in the payment arrangements other than those agreed with the institutional body.

The circular applies to commitments that will be in force from 1 January 2012.

Draft circular regarding Power of Attorney to License Holder

On 13 July 2011, the Supervisor of the Capital Market, Insurance and Savings Division in the Ministry of Finance published a draft circular regarding the power of attorney to a license holder ("the draft circular") for the purpose of establishing a consistent structure for the power of attorney form, through which a customer will represent the license holder to obtain information from institutional bodies or to forward requests, in the context of pension counseling, or pension marketing.

The draft circular provides regulations limiting the validity of the power of attorney, or the version of the power of attorney and the need to verify powers of attorney in certain cases.

Draft Supervision Regulations on Financial Services (Insurance) (Brokerage Fees) 2011

On 25 October 2011, a second draft of the Supervision Regulations on Financial Services (Insurance) (Brokerage Fees), 2011 was published. Pursuant to the draft regulations, it was proposed, *inter alia*, to determine that brokerage fees will not be paid for a certain insurance product (including, a pension product) to more than one license holder for the same period, unless it involves the joint treatment of those license holders and is according to an agreement concluded with him in the sharing of agents' fees between them. In addition, the regulations allow the continuation of paying agents' fees to an insurance agent who has attached a policy holder for the first time to an insurance product (including a pension product), after another license holder has been appointed in his stead for a period not exceeding three years from the date on which the policy holder joined that insurance product for the first time.

Order of the Bank of Israel (Data on the Transactions in Foreign Currency Derivatives and Short-Term Debt Instruments), 2011

On 14 April 2011, the Bank of Israel published a draft order, whereby, effective 1 July 2011, imposing the obligation of reporting, *inter alia*, the transactions set forth below:

- In respect of shekel-foreign currency swap transactions and future transactions in foreign currency in amounts of US$ 10 million and more which residents of Israel and foreign residents have executed in one day, the reporting obligation will fall on the details of the said transactions and on the holdings of the residents of Israel and the foreign residents in these assets and in shekel-dollar transactions.
- In respect of transactions in T-Bills and in short-term Government bonds of NIS 10 million and more which foreign residents have executed in one day - the reporting obligation will fall on the details of the said transactions and on the holdings of the foreign residents in these assets.

The reporting obligation, as stated above, applies both to the aforesaid transaction-makers and the financial intermediaries that have executed a transactions, as aforesaid, whether for themselves or for their customer.

Antitrust Law (Amendment No. 12), 2011 regarding "Concentration Group"

On 18 July 2011, the Knesset passed Amendment 12 of the Antitrust Law regarding concentration groups. The main points of the amendment are as follows:

Declaration of a concentration group – Pursuant to the amendment to the law, the Antitrust Commissioner is authorized to determine that a limited group of persons managing a business (including companies) which holds a concentration of more than half of the total supply of assets or of the total provision of services or their purchase constitute a concentration group, when among the members of the group or in the industry in which they operate, there are conditions for a lack of competition or there exists among them a lack of competition (together with additional conditions that need to be fulfilled for the declaration of a group as a concentration group).

Pursuant to this condition, as opposed to the current legal situation, the Commissioner is entitled to declare a concentration group, even in cases where competition is not actually impaired, rather there are only "conditions for a lack of competition".

The amendment to the law will provide that indications of a lack of competition can be considered, *inter alia*, a barrier to entry together with switching barriers and cross-holdings.

Authority to deal with a concentration group – after declaring a concentration group, the Commissioner will be empowered to order a wide range of measures intended to prevent significant impairment or a fear of impairment to the public / competition or a significant increase in competition or the creation of conditions for a significant increase in competition.

In contrast to the legal position prior to the amendment, whereby the Commissioner has the power to order only measures intended to prevent impairment to competition, the amendment to the law also grants the Commissioner authority to order measures that are intended to increase competition significantly or to create conditions for a significant increase in competition between members of the group or in the industry in which they operate, including to order the removal or reduction of barriers to entry or transition in the industry, to order the cessation of a certain activity of a member of the group and to prohibit the transfer or publication of information among the members of the group.

The amendment to the law stipulates special provisions for the banking and insurance sectors. In relation to the banking sector, it has been determined that:

The Commissioner is to consult the Governor of the Bank of Israel and Supervisor of Banks before declaring a concentration group in the banking sector, and to inform them of his intention to give an order to a concentration group that has been declared, which is intended to prevent an impairment to the public or competition in business.

The Governor of the Bank of Israel and the Supervisor of Banks have the right of veto to prevent the giving of an order (to a concentration group that has been declared) as aforesaid, if either of them are of the opinion that the giving of the order will jeopardize the stability of the banking corporation or the banking system. The veto right is established until 1 January 2014, and thereafter, it can be extended for a period of two years each time at the request of the Minister of Finance, with the approval of the Knesset Finance Committee. The publication of the veto right to the public should be at the same time as the decision of the Governor or the Supervisor on this matter. The explanations for their decision should be published six months thereafter, unless it has been agreed between the Commissioner and the Governor or the Supervisor to defer publication (only when there is agreement between them that timely publication could destabilize the banking system or a relevant banking corporation). Similar orders were also established in relation to the insurance sector.

Banking Law (Licensing) (Amendment No. 18), 2011

On 3 August 2011, Amendment no. 18 of the Banking Law (Licensing) regarding the clearing of debit card transactions was passed, the main points of which are as follows:

A clearing agent who has cleared 20% or more of the number of debit card transactions cleared in Israel, or of the total proceeds paid to suppliers in Israel in a previous year will be considered a "large-scale operator" and the Supervisor of Banks will be entitled to instruct such a clearing agent to clear debit card transactions issued by another issuer.

An issuer that issues 10% or more of the number of debit cards in Israel or an issuer which, through debit cards that it issued, carried out in a previous year at least 10% of the amount of transactions in Israel through debit cards issued in Israel, will be considered a "large-scale issuer" which will not refuse, without good reason, to enter into a commitment with a clearing agent for interchange clearance of debit card transactions that it issued. This section will apply nine months after the date of the law coming into effect.

The law also regulates other areas, for example, the debiting of entities that deal with clearance and the obtaining of a license from the Governor of the Bank of Israel and the agreement of the Supervisor of Banks to supervise the area of credit cards.

In addition, it is provided that, with regard to the possibility of a business receiving discounting services, a clearing agent cannot prevent a business from entering into a commitment with a discounting company.

Proposed Law for the Regulation of Investment Counseling, Investment Marketing and Portfolio Management Sector (Amendment – Provision of Investment Counseling), 2011

The proposed Counseling Law (Amendment – Investment Consultancy) was presented to the Knesset on 30 March 2011 as a private bill.

According to the proposed legislation, training funds will be excluded from the definition of financial assets;

The scope of the application of the Consultancy Law over the activity it regulates, via the addition of the term "asset connected financial asset" to the activity of the "investment market"

A distinction will be made between investment consultancy / marketing pursuant to which advice may be given to a certain customer depending on his personal and data, and general investment consultancy / marketing pursuant to which consistent and non-specific advice, to a large number of people (sometimes, an unknown number) that is not adapted to a customer's personal needs and data.

Obligations regarding general investment counseling / marketing will be stipulated, including the disclosure of any conflict of interests of the provider / marketer of the counseling and of any material matters for investment counseling / marketing, etc.

According to the proposed law, obligations applying to the license holder in the provision of investment counseling / marketing will apply to him even if the outcome of the service is a recommendation to the customer in connection to the assets that are not securities or financial assets. In addition, it is proposed to add-violations for which a penal sanction can be imposed and violations for which the Authority is authorized to impose on the violator a monetary sanction (both on an individual and on a corporation), for the purpose of the provision of general investment counseling / marketing.

Securities Order (Amendment to First Addendum to the Law), 2011

On 30 June 2011, Securities Order (Amended First Addendum to the Law), 2011 was published, pursuant to which the first addendum to the Securities Law and the definition of the "accredited investor" was expanded.

The order came into force on 1 August 2011. Pursuant to the amendment, the following was added to the first amendment to the Securities Law as accredited investors –

An individual investor who is an "eligible investor" as defined in the Counseling Law, who is purchasing for himself.

A corporation whose shareholders' equity is NIS 50 million (Before the order, the requirement was for a shareholders' equity of NIS 250 million.).

The order also provides that written confirmation must be obtained before every date of acquisition in which the conditions set forth in the first addendum to the Securities Law are fulfilled and that it is aware of the significance of its coming within the definition of an investor included in the addendum and concurs therewith.

Proposed Banking Law (Service to the Customer) (Amended – Prohibition on the Collection of a Charge for Managing an Account for Investment in Securities), 2011

On 1 August 2011, a private bill was placed before the Knesset, proposing the provision of a regulation whereby the Governor would not include in the commission charge-list any commission that would allow a banking corporation to collect from its customers a commission for managing an account for investment in securities

Proposed Law for Restrictions on the Issuers of Debit Cards (Legislative Amendments – Encouragement of Competition and Preserving the Rights of Customers), 2011

On 31 October 2011, a private bill to amend the Banking Law (Licensing), 1981 and the Banking Law (Service to the Customer), 1981 was placed before the Knesset. The bill proposes that a banking corporation will not be able to hold more than 26% of the means of control in an issuer of debit cards, and will prevent credit card companies making use of or transferring to a third party data and information relating to the debit card holders, received by them from various parties, except for the purpose of debiting the account of the cardholder.

Proposed Law for the Amendment of Securities Regulations (Details of the Prospectus and Draft Prospectus – Structure and Form), 2011

The Israel Securities Authority has proposed an amendment to the Securities Regulations (Details of the Prospectus and Draft Prospectus – Structure and Form), 2011. Among other things, it is proposed to cancel Regulation 51(b) which enables banking corporations and insurers to issue bonds, which are rated as an investment, the proceeds of which are placed in a deposit, guaranteeing repayment in the said corporation via prospectuses of designated companies. The significance of the cancelation is that public issues of bonds by a banking corporation or insurer will require them to publish prospectuses.

Proposed Law for the Amendment of Securities Regulations (Method of Offer of Securities to the Public), 2011

In the proposed amendment, the Israel Securities Authority requests the gradual reduction of the maximum rate of early commitment out of a total issue to only 30% (instead of 80% or more at present). It is further proposed to limit the list of investors entitled to purchase securities by early commitment (those listed in the First Addendum to the Securities Law, 1968) to mutual fund managers for funds under their management, managing companies for provident funds under their management, insurers for investments standing against yield-contingent liabilities and corporations operating outside of Israel whose characteristics are similar to the abovementioned entities.

Proposal for Legislative Amendments in the Area of Underwriting

The Israel Securities Authority has published a legislative outline prospectus for the comments of the public to amend the legislation relating to underwriting. Pursuant thereto, it is proposed that in every prospectus, including a shelf prospectus, there will be at least one underwriter who will take responsibility for the prospectus (whether it has entered into an insurance contract with the offeror company or not). The underwriter will be required to sign the drafts of the prospectus submitted to the ISA and the shelf offer reports submitted and to indicate in the prospectus, whether he has carried out the appropriate due diligence. It will be obligatory to publish the draft prospectus which is submitted for review to the authority in order to receive a permit. The actions that will be considered as underwriting will be expanded and the conditions of eligibility required from an underwriter will be tightened. An underwriter will not be allowed to be a subsidiary of the issuer and, as a distributor, it will not be able to act as an entity registered in the Registry of Underwriters.

Foreign Account Tax Compliance Act of 2009 - FATCA

In March 2010, the Internal Revenue Code in the United States (the U.S. Income Tax Law) was amended such that brings into effect certain sections of the Foreign Account Tax Compliance Act of 2009.

The law implements a reporting regime which aims to compel foreign financial institutions (FFI), including non-U.S. banks, to transfer information regarding accounts held by U.S. customers, and thus considerably expands the disclosure and reporting requirements imposed on FFI in relation to U.S. accounts. For this purpose, the FFI must enter into an agreement with the Internal Revenue Service ("IRS").

At the same time, the law creates a new withholding obligation, if the FFI does not enter into an agreement with the IRS, or with regard to account holders who refuse to supply the information and documents required by law.

The law requires appropriate checks to be made in order to locate U.S. accounts.

The law is in the secondary legislative processes and a number of interpretative circulars have been issued by the IRS. As of the date of publishing these reports, the law will come into force from 2013 or 2014, according to subject.

In order to be prepared for the implementation of the law, the Bank has set up a steering committee which is studying and monitoring developments in the legislation, reviewing and controlling the procedures necessary for implementing the legislative requirements, and examining how banks around the world are preparing for the law.

In recent years, working procedures for dealing with American customers have been prescribed in the Bank and in the subsidiaries.

Restrictions on an Obligation of a Borrower and Group of Borrowers

In May 2011, the Supervisor of Banks published an amendment to Proper Conduct of Banking Business Directive 313 "Restrictions on an Obligation of a Borrower and Group of Borrowers". Pursuant to the above amendments, the following restrictions were included:

- An obligation of a borrower, except a bank, must not exceed 15% of the capital of a banking corporation (as in the past).
- An obligation of a group of borrowers must not exceed 25% of the capital of a banking corporation (as the Bank was accustomed so to do in the past).
- An obligation of a banking group of borrowers must not exceed the higher of 25% of the capital of the banking corporation or NIS 250 million.
- The total obligations of all of the borrowers, a group of borrowers, and a banking group of borrowers whose net obligation to the banking corporation exceeds 10% of the capital of the banking corporation, must not exceed 120% of the capital of the banking corporation.
- The directive will become effective from 31 December 2011.

Accounting Policy on Critical Subjects

The financial statements have been prepared in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks and his guidelines relating to the preparation of the annual and quarterly financial statements of a banking corporation, as detailed in note 1 to the annual financial statements as at 31 December 2010 and except for that stated in note 1b to the quarterly report.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts of income and expenses.

The actual results relating to these estimates may differ from the estimates and/or the assumptions.

The estimates and assumptions are generally based on economic forecasts, assumptions regarding the various markets and past experience, following due consideration, which management believes to be reasonable at the time of signature of the financial statements.

The principal critical accounting subjects referred to in the Annual Report as at 31 December 2010 were as follows: allowances for credit losses, derivative financial instruments, securities, obligations regarding employee rights, obligations in respect of legal claims, buildings and equipment and taxes on income.

Below is a specification of changes in the accounting policy on critical subjects during the reporting period:

Directives for the Measurement and Disclosure of Impaired Debts, Credit Risk and Allowance for Credit Losses

With effect from 1 January 2011, the directive regarding the measurement and disclosure of impaired debts, credit risk and allowance for credit losses came into force. The directive brings the reporting principles applicable to banking corporations in Israel on this topic into line with those applicable to banks in the United States and it is based, *inter alia*, on accounting principles generally accepted in the United States and directives of the United States Securities Authority relating to banks.

The five main subjects arranged in the directive are as follows:

a. A change in the definition of a problem debt. Three main types of problem debts are specified in the directive, creating a ranking of the severity of the problematic nature of the debt.

- **1.** Impaired debt – a debt where the Bank expects that it will be unable to collect all of the amounts that are due to it according to the debt agreement.

- **2.** Substandard debt – a debt which is not adequately protected by collateral or the repayment ability of the debtor and there is a distinct possibility that the Bank will absorb a loss in respect thereof if the deficiencies are not remedied.

- **3.** Special mention debt – a debt which has a potential weakness in respect of which the special attention of the management is required.

b. A change in the allowance for credit losses – the distinction is made between an allowance on an individual basis and an allowance on a group basis, and rules are prescribed for the calculation of these allowances.

1. Individual allowance – an allowance required to cover anticipated credit losses in respect of debts that have been examined on an individual basis and identified as being impaired.

2. Group allowance – in respect of all credit that is not classified as being impaired.

c. Accounting writing-off of debts

1. It is provided that any debt that is not collectible should be written off.

2. Any debt more than 150 days in arrears where the allowance is made on the basis of the group allowance.

3. An individual allowance after two years.

d. Interest income – It is provided, as a rule, that no uncollected interest income will be recorded for debts classified as impaired.

e. Disclosure – The directive expands the disclosure provided in the statements to the public with regard to the quality of the credit and the allowance for credit losses, and also expands the disclosure regarding the methods and assumptions used for measuring the credit loss allowance.

In addition, the directive determines a group allowance for credit losses in respect of the rest of the unimpaired credit risks. The aforesaid allowance cancels the additional and general provision in respect of problem debts and in respect of other features, for example, the non-receipt of financial statements, segmental deviation and other deviations from proper banking procedure, if any. In any case, in 2011, the additional provision should continue to be calculated for the sake of comparison with the group allowance, with the higher of the two being recorded in the books.

The effect of the change in the initial transition to the method of calculating the aforesaid provisions as of 31 December 2010 was included in retained earnings in equity. The impact amounted to NIS 1,319 million, gross, and NIS 721 million, net after taxes.

Directives and interpretations regarding the strengthening of internal control on financial reporting of employee rights

On 27 March 2011, the directives of the Supervisor of Banks regarding the strengthening of internal control over financial reporting of employee rights were published. The directives provide a number of interpretations relating to the assessment of a liability in respect of employee rights and directives regarding internal control over the financial reporting process regarding employee rights, with a demand to recruit a qualified actuary, the identification and classification of liabilities in respect of employee rights, the existence of internal control for reliance on the actuary's assessment and validation and certain disclosure requirements.

On 23 May 2011, the Banking Supervision Department published a clarification whereby the implementation of the abovementioned directives was deferred to 1 April 2011.

The directive provides, *inter alia*, that a banking corporation that anticipates paying its employees benefits in excess of the contractual conditions when they leave, should take into account the number of employees who are expected to leave and the benefits the Bank expects to pay in excess of contractual conditions, in case of an early retirement of employees. As a result of the aforesaid directive, the expected number of employees who will take an early retirement was changed in the actuarial models on which the liabilities for pension payments and jubilee grants which the Bank's calculations are based upon, and the benefits in excess if the contractual conditions were taken into account.

The Bank implemented the aforesaid directive for the first time in the financial statements in the second quarter of 2011. As of 30 June 2011, each reporting period was restated and the opening balances were amended accordingly. The cumulative effect of the application of the directive on the retained earnings as of 30 June 2011 amounted NIS 549 million, gross, and NIS 390 million, net. The change in the aforesaid provisions was presented as a restatement of retained earnings as of 31 December 2008, and from that date, the effects on the statement of profit and loss of each period were recorded, by the restatement of salary expenses, provision for taxes and net profit. For more details, see below in Note 1.b.4 to the financial statements.

Procedure for the Approval of the Financial Statements

The Bank's Board of Directors is the entity ultimately responsible for supervision within the Bank and for the approval of the Bank's financial statements. All of the members of the Board of Directors possess accounting and financial expertise.

The Board of Directors has established a Financial Statements Review Committee, composed of members of the Board, the function of which is to discuss the financial statements and recommend their approval to the Board of Directors.

Before the financial statements are submitted to the Financial Statements Review Committee for discussion, the Bank's financial statements are discussed by the Disclosure Committee. The Disclosure Committee is a management committee comprised of all the members of the Bank's Management, and a member of the committee acts as Group Secretary. The Chief Internal Auditor and additional senior managers of the Bank participate in the discussions of the Committee. The Disclosure Committee checks, *inter alia*, that the information in the financial statements is accurate, complete and presented fairly. (The Disclosure Committee was set up as part of the implementation of the Bank Supervision Department directive, which is based on Section 302 of the SOX Law. See "Controls and Procedures with regard to Disclosure in the Financial Statements" on page 162 of the Report.)

Prior to the discussion of the financial statements by the full Board of Directors, discussions are held by the Financial Statements Review Committee, with the participation of the President and Chief Executive Officer, the Chief Accounting Officer, the Chief Internal Auditor and others.

The background material sent to the members of the Financial Statements Review Committee for discussion includes the minutes of discussions in the Disclosure Committee and its decisions, the draft Board of Directors' Report, the draft of the Financial Statements, information regarding the Bank's exposure to legal claims and a description of the new legal claims and background material for discussion on the appropriateness of the classification of problematic customers. The members of the committee also receive details of new disclosure requirements (if any) applicable to the Bank.

As part of the deliberations, the committee discusses the appropriateness of the provisions and the classification of the Bank's problem debts, after the Chief Executive Officer has presented to the committee the extent of the provisions and the classification for problem debts and the changes and the trends in this area, and after the senior managers have presented the extent of the provisions and classifications for which they are responsible and have detailed the main factors of change in these areas. The subject of the legal claims and of the Bank's exposure in this regard is presented by the Bank's Chief Legal Advisor. The Chief Accountant presents to the Committee the main and material matters in the Directors' Report and Financial Statements, the changes in critical accounting policies, if any, and the main matters discussed by the Disclosure Committee, and the Committee also discusses these matters.

The Financial Statements Review Committee submits its recommendations regarding the financial statements to the Board of Directors. The committee's recommendations relate, *inter alia*, (in accordance with the provisions of the Companies Regulations (Directives and Conditions Regarding the Process for Approving the Financial Statements), 2010) ("**the Companies Regulations**") to assessments and estimates made in connection with the statements; internal controls related to financial reporting, completeness and fairness of disclosure in the statements; the accounting policy adopted and the accounting treatment applied on the Bank's material interests; valuations, including assumptions and estimates on which they are based, which support the data in the financial statements.

Following the discussions of the Committee, there is discussion on the final draft of the Financial Statements in the full Board of Directors, attended by the President and Chief Executive Officer, the Chief Accounting Officer, the Chief Internal Auditor, and when the discussion concerns the approval of the annual Financial Statements, the other members of the Bank's Management in addition. As background material for the discussion, the Directors receive the draft Financial Statements together with extensive accompanying background material, including in-depth comprehensive analyses of the Bank's activities in its various areas of business.

In the context of this discussion, the Bank's President and Chief Executive Officer reviews the results of Leumi Group's operations and the Chief Accountant presents and analyzes the results of the Group's operations in Israel and abroad, including a description of risk exposure and compliance with the limits established with regard to such risks. Thereafter, the full Board of Directors discusses and accordingly approves the financial statements.

All the discussions of the Board of Directors, the Financial Statements Review Committee and the Committee for Disclosure regarding the financial statements are attended by representatives of the Bank's joint auditors, who are available to the participants to answer questions and provide clarifications. The financial statements are approved by the Board of Directors following their presentation to the joint auditors to the Financial Statements Review Committee and the Audit Committee of the Board of Directors of any material weaknesses that may have arisen during the audit processes that they carried out, and after the Board is presented with the representations of the President and Chief Executive Officer and of the Chief Accountant regarding evaluation of the Bank's disclosure controls and procedures for the financial statements.

The composition of the Financial Statement Review Committee is as stipulated by the Companies Law Regulations. The committee includes six directors, including, pursuant to the Companies Law, one external director serving in the Bank, who chairs the committee. A further three committee members are external directors as stipulated by the Banking Supervision Department, and all committee members have financial and accounting expertise.

Disclosure Policy

Pursuant to Bank of Israel directives, the reporting requirements in Pillar 3 of the Basel II directives oblige the Bank to determine a formal disclosure policy. The policy is to refer to the banking corporation's approach to determining what disclosure is made, including the internal controls on the process.

Leumi has determined its disclosure policy, which has been approved by the Board of Directors.

The disclosure policy is based on the Directives for Reporting to the Public of the Supervisor of Banks and the provisional directives of the Israel Securities Authority, which have been adopted by the Supervisor of Banks.

In accordance with the said disclosure policy, Leumi aims to provide all material information necessary to understand its statements, which will be reported clearly and in detail.

Information given in the Directors' Report is prepared in accordance with directives for Reporting to the Public, particularly with regard to “Temporary Order concerning the Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report”. In accordance with the directive, the directors' report is to include information in the Bank's business, the operating segments in which it operates, the general environment in which it operates and its effect on the Bank, the control structure of the Bank and its organizational structure, legal proceedings, material agreements, and detailed information on other matters.

With regard to information which can be quantified monetarily, quantitative data is given, and with regard to other information, qualitative data is given.

The general principle according to which information is given in the report is the principle of materiality. The Bank's business and its activities are examined according to their scope and nature, and at the end of the examination, disclosure is made regarding matters of material monetary size in relation to the annual profit of the Bank, its assets or its capital. In addition, disclosure is made of matters of public interest or of special sensitivity, such as matters connected with the structure of the Bank, its management, legislation affecting the bank and so on.

For the purposes of complying with this policy, every material subject is brought for discussion to the Disclosure Committee, (see above chapter of the Procedure for Approval of the Financial Statements), which decides, in all dubious cases, whether to make the necessary disclosure. Minutes of the Disclosure Committee are sent for perusal by the members of the Financial Statements Review Committee of the Board of Directors.

See also page 162, “Controls and Procedures regarding Disclosure in the Financial Statements”.

C. Description of the Group's Business according to Segments and Areas of Activity

Development of Income, Expenses and Tax Provision*

The net profit attributable to the shareholders of the banking corporation of Leumi Group for the first nine months of 2011 was NIS 1,273 million, compared with NIS 1,838 million in the corresponding period in 2010, a decrease of 30.7%.

The operating profit attributable to shareholders of the banking corporation of Leumi Group in the first nine months of 2011 amounted to NIS 1,271 million, compared with NIS 1,652 million in the corresponding period last year, a decrease of 23.1%.

The decrease in the net profit attributable to the shareholders of the Group for the first nine months of 2011, as compared with the corresponding period in 2010, is explained primarily by the following factors:

1. An increase in operating and other expenses (including salary) amounting to NIS 569 million, before the effect of taxes. Of this: NIS 381 million, as a result of losses in severance pay and provident funds.

2. A decrease in operating and other income amounting to NIS 200 million, before the effect of taxes, as a result of recording a decline in the market value of an investment in Partner amounting to NIS 239 million and a reduction in dividends from Partner amounting to NIS 90 million, net. On the other hand, there was profit of NIS 143 million before the effect of taxes in respect of the realization of securities of Lehman Brothers.

3. A decrease in the net profit from extraordinary items amounting to NIS 184 million. In the second quarter of 2010, the Bank recorded a gain on the sale of its holdings in Paz Oil Ltd.

4. A decrease in the Group's share in the profits of companies included on an equity basis amounting to NIS 114 million, net.

On the other hand, the following factors partly offset the abovementioned decrease:

1. An increase in net interest income before expenses in respect of credit losses amounting to NIS 290 million, before the effect of taxes.

2. A decrease in expenses in respect of credit losses amounting to NIS 23 million, before the effect of taxes.

3. A decrease of 1.5 percentage points in the effective tax rate.

The net profit attributable to the shareholders of the Group in the third quarter of the year amounted to NIS 155 million, compared to a net profit of NIS 606 million in the corresponding quarter of 2010, a decrease of NIS 451 million, a decrease of 74.4%.

The net operating profit attributable to the shareholders of the banking corporation of Leumi Group in the third quarter of the year amounted to NIS 156 million, compared to a net profit of NIS 606 million in the corresponding quarter of 2010, a decrease of 74.3%.

* The comparative figures of operating and other expenses, provision for tax, operating profit and net profit have been restated as a result of a directive of the Bank of Israel dated 27 March 2011 for making additional provisions in respect of future departures under conditions more favorable than the contractual terms, see above page 33.

The main factors for the decrease in net profitability before attribution to holders of non-controlling rights for the third quarter were as follows:

1. An increase in operating and other expenses (including salary) amounting to NIS 257 million, before the effect of taxes. Of this: NIS 254 million, as a result of losses in severance pay and provident funds.

2. An increase in expenses in respect of credit losses amounting to NIS 332 million, before the effect of taxes.

3. A decrease in net operating income before expenses in respect of credit losses amounting to NIS 154 million, before the effect of taxes.

4. A decrease in other and operating income amounting to NIS 151 million, before the effect of taxes, as a result of recording a decline in the market value of an investment in Partner amounting to NIS 239 million. On the other hand, there was a profit of NIS 143 million, net of the effect of taxes, in respect of the realization of Lehman Brothers.

On the other hand, the following factors partially offset the above-mentioned effects:

1. An increase in the Group's share in the income of companies included on equity basis amounting to NIS 58 million, net.

2. A decrease in the effective tax rate by 4.3 percentage points.

* The comparative figures of operating and other expenses, provision for tax, operating profit and net profit have been restated as a result of a directive of the Bank of Israel dated 27 March 2011 for making additional provisions in respect of future departures under conditions more favorable than the contractual terms, see above page 33.

Net interest income before expenses in respect of credit loss of Leumi Group for the first nine months of 2011 amounted to NIS 5,582 million, compared to NIS 5,292 million in the corresponding period in 2010, an increase of NIS 290 million, an increase of 5.5%.

In the third quarter of the year, net interest income before provision for credit losses amounted to NIS 1,692 million, compared to NIS 1,846 million in the corresponding period in 2010, a decrease of 8.3%.

The changes in the Group's net interest income before expenses in respect of credit loss for the first nine months of 2011 compared to the corresponding period in 2010 stem mainly from:

	For the nine months ended		
	30 September 2011	30 September 2010	
	NIS millions		% change
Current activities	**5,540**	4,764	16.3
Collection of interest in respect of credit losses (1)	**24**	386	-
Effect in respect of non-income bearing debts	**(270)**	(137)	-
Exchange rate differentials in respect of financing shares recorded in capital reserve and operating income	**(27)**	10	+
Profits from sale of available-for-sale debentures, net	**197**	174	13.2
Realized and unrealized profits from adjustments to the fair value of debentures for trading, net	**47**	210	-
Financing income (expenses) in connection with hedging of overseas investments (2)	**(102)**	58	-
Adjustments to fair value of derivative instruments	**23**	(202)	+
Effect of the known CPI on excess assets in the index sector	**150**	29	+
Total	**5,582**	5,292	5.5

(1) From the first quarter of 2011, collections were first recorded in the expenses in respect of credit losses, whereas in the past, they were included in net interest income.

(2) Revenues/expenses in respect of hedging the asymmetry in the tax liabilities in respect of the exchange rate differentials relating to overseas investments, as compared with the exchange rate differentials relating to financing sources. The compensation is recorded in the tax item.

As indicated in the above table, net interest income from current activities increased by 16.3%. The increase is mainly attributable to an increase in total activity.

The following table sets out the development of net interest income according to the principal operating segments:

	For the first nine months of		
Sector	**2011**	2010	% change
	NIS millions		
Households	**1,946**	1,629	19.5
Small businesses	**703**	666	5.6
Corporate banking	**1,318**	1,512	(12.8)
Commercial banking	**1,113**	1,108	0.5
Private banking	**321**	303	5.9
Financial management – capital markets	**169**	67	+
Other	**12**	7	+
Total	**5,582**	5,292	5.5

Total **Interest Margin** (excluding transactions in financial derivatives) in the first nine months of 2011 was 1.50%, compared with 2.36% in the corresponding period in 2010. The interest margin including transactions in derivatives was 0.98% in the nine months of 2011, compared with 1.12% during the corresponding period in 2010, and 1.22% for the whole of 2010.

The interest margin in the unlinked shekel sector, including derivatives, during the period was 1.80%, compared with 1.83% last year. The decrease arises from an increase in the proportion of derivative activities of the total assets in the segment, in which the interest margin is lower than the interest margin in the balance sheet activity. The interest margin for the period in the index sector was 0.54%, compared to a negative 0.24% in the corresponding period in 2010 and income increased by NIS 771 million, mainly due to a change in the fair value of the derivatives.

The interest margin during the first nine months of 2011 was mainly affected by the following:

a. Pursuant to the directives of the Supervisor of Banks, effective from 2011, the interest margin on credit to the public is calculated on average balances before expenses/for credit losses, compared with previous years when the average balance was calculated on the net credit balances.

b. The change in the Bank of Israel's interest rate has improved the interest margin without derivatives, primarily in the unlinked shekel sector.

c. The narrowing of the aggregate interest margin was affected, *inter alia*, by exchange rate differentials, including in respect of the hedging of investments abroad and an increase in the proportion of activity in derivatives to total assets.

d. Competitive factors within the system also contributed to the offset of some of the widening of the interest margin resulting from the aforementioned factors.

The ratio of net interest income before provision for expenses in respect of credit losses to the average balance of income-yielding financial balance sheet assets was 2.39% (in annual terms), compared with 2.32% in the corresponding period last year.

Commissions from financing transactions during the first nine months of 2011 amounted to NIS 295 million, compared with NIS 288 million during the corresponding period in 2010, an increase of 2.4%. These commissions mainly include the income from off-balance sheet activity, such as guarantees for granting credit, guarantees for apartment purchasers and other guarantees, as well as commissions from foreign trade activity.

Other financing income and expenses include, for the most part, profits/losses from the sale of debentures and the adjustment of debentures for trading to fair value, and income from early credit repayment commissions. Net income from these operations during the first nine months of 2011 amounted to NIS 411 million, compared with NIS 893 million in the corresponding period in 2010, a decrease of 54.0%

The following are the main changes in other financing income and expenses:

	For the nine months ended		
	30 September 2011	30 September 2010	
	NIS millions		% change
Net profit from sales of available-for-sale debentures	**221**	183	20.8
Loss on sale and decline in value of available-for-sale debentures	**(24)**	(9)	-
Profit from sale and adjustments to fair value of debentures for trading	**47**	210	(77.6)
Collection of interest in cash (1)	**24**	386	-
Early credit repayment commissions	**121**	107	13.1
Other	**22**	16	37.4
Total	**411**	893	(54.0)

(1) From the first quarter of 2011, collections were first recorded as a decrease in the expenses in respect of credit losses item, whereas in the past, they were included in net interest income.

Expenses in respect of credit losses in the Leumi Group for the first nine months of 2011 amounted to NIS 349 million, compared with NIS 372 million in the corresponding period in 2010, a fall of NIS 23 million or 6.2%.

In the third quarter of 2011, the expense in respect of credit losses amounted to NIS 378 million, compared to NIS 46 million in the corresponding period in 2010, an increase of NIS 332 million.

The increase of expenses in respect of credit losses in the third quarter also results from a change the directive in respect of impaired debts that led to an increase in the group allowance and from the effect of a fall in the market value of collateral. On the other hand, the recording the collection first as a collection of the principal partially offset the expenses in respect of credit losses.

In regard to the changes in the new directives regarding expenses in respect of credit losses and impaired debts, see page 31 above.

The effect of the change in the initial transition to the method of calculating the aforesaid provisions as of 31 December 2010 will be included in retained profits in capital. The impact amounted to NIS 1,319 million, gross, and NIS 721 million, net after tax.

The overall rate of the expense for credit losses for the first nine months of 2011 was 0.20% of total credit to the public (in annual terms), compared with a rate of 0.23% in the corresponding period in 2010, and compared with 0.26% for the whole of 2010. The overall rate of the expense for credit losses in relation to overall credit risk (balance sheet and off-balance sheet) was 0.13%, 0.15% and 0.17%, respectively. The rate of expense for individual credit losses accounts for 0.12% of total credit to the public, compared with a rate of 0.29% in the corresponding period last year.

As stated above, with effect from 1 January 2011, the directives of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk and allowance for credit losses apply. The aforesaid directives adopt the generally accepted regulations of the authorities in the United States. Pursuant to the abovementioned regulation, the general and additional provision will be canceled and in its stead, there will be a group allowance in respect of credit risk. The group allowance as at 30 September 2011 amounts to NIS 2,496 million, which accounts for 0.67% of total credit risk, compared with NIS 2,396 million as at 1 January 2011, which accounts for 0.70% of total credit risk. The total Group addition to the allowance amounts to NIS 1,726 million, compared to the additional and general provision of NIS 770 million as at

31 December 2010. The addition to the Group allowance as at 1 January 2011 was recorded as a capital debt and the change in the first nine months of 2011 was recorded in the statement of profit and loss.

The following table sets out the breakdown of the expense in respect of credit losses according to principal operating segments:

	First nine months of 2011		First nine months of 2010	
	NIS millions	**% ***	NIS millions	%*
Households	**28**	**0.0**	103	0.2
Private banking	**(25)**	**(0.4)**	7	0.1
Small businesses	**26**	**0.2**	86	0.7
Corporate banking	**148**	**0.3**	(35)	(0.1)
Commercial banking	**98**	**0.3**	222	0.6
Financial management and other	**74**	**7.4**	(11)	(1.6)
Total	**349**	**0.2**	372	0.2

* Percentage of total credit at the end of the period on an annual basis.

The following table sets out the breakdown of the individual expense in respect of credit losses by main sector of the economy*:

	First nine months of 2011	First nine months of 2010
	NIS millions	NIS millions
Industry	**22**	(18)
Construction and real estate	**255**	206
Trade	**37**	218
Hotels, accommodation and food services	**(50)**	3
Transportation and storage	**15**	(60)
Communications and computer services	**(16)**	(14)
Financial services	**123**	(5)
Other business services	**(3)**	12
Private individuals - housing loans	**(4)**	(33)
Private individuals – other	**(45)**	148
Other	**15**	9
Total expense	**349**	466

* In 2010, there was a specific allowance for doubtful debts. Including the general and additional provision the total expense for credit losses last year amounted to NIS 372 million.

The following is a summary of the expenses in respect of credit losses *:

	For the three months ended **30 September 2011**	For the nine months ended **30 September 2011**
	NIS millions	
Individual allowance during the period	**442**	**717**
Reduction in individual allowance	**(201)**	**(513)**
Net increase carried to the profit and loss statement	**241**	**204**
Increase in respect of Group allowance carried to profit and loss statement	**137**	**145**
Total increase in expense in respect of credit losses	**378**	**349**

	For the three months ended 30 September 2010	For the nine months ended 30 September 2010
	NIS millions	
Individual allowance during the period	521	1,472
Reduction in allowance	(454)	(990)
Collection of debts previously written off	(4)	(16)
Net addition, carried to the profit and loss statement	63	466
Reduction carried to the profit and loss statement in respect of additional allowance	(17)	(94)
Total allowance for credit losses	46	372

* In 2010, allowances for doubtful debts according to the previous method.

The following is the breakdown of the main expenses in respect of credit losses in the Group (the Bank and consolidated companies) charged to the profit and loss account:

	For the first nine months of 2011	For the first nine months of 2010*	
	NIS millions		% change
The Bank	**266**	202	31.7
Arab Israel Bank	**2**	17	(88.2)
Leumi Mortgage Bank	**(8)**	(36)	+
Leumi Card	**13**	22	(40.9)
Bank Leumi – U.S.A.	**17**	91	(81.3)
Bank Leumi – U.K.	**24**	25	(4.0)
Bank Leumi – Romania	**32**	40	(20.0)
Leumi Leasing and Investments	**3**	14	(78.6)
Others	**-**	(3)	+
Total expense	**349**	372	(6.2)

* In 2010, provisions for doubtful debts according to the previous method.

Non-performing assets (*), impaired debts accruing interest income, problem commercial credit risk and unimpaired debts in arrears of 90 days or more:

(*) Impaired debts that do not accrue interest income

All of the balances shown in this appendix are presented pursuant to the new directives for the measurement and disclosure of impaired debts, credit risk and allowance for credit losses. All of the balances are before the allowance for credit losses.

	30 September 2011	31 December 2010
	Reported amounts	
On a consolidated basis	NIS millions	
1. Non-performing assets:		
Impaired credit to the public not accruing interest income*		
Reviewed on an individual basis	**6,191**	8,876
Reviewed on a group basis	**5**	6
Impaired bonds not accruing interest income	**-**	-
Impaired debts not accruing interest income	**20**	19
Total impaired bonds not accumulating interest income	**6,216**	8,901
Assets received in respect of cleared credit	**77**	81
Total non-performing assets	**6,293**	8,982
2. Impaired debts in the restructuring of problem debts accruing interest income	**158**	65
3. Problem commercial credit risk (1):		
Problem balance sheet credit risk in respect of the public	**9,651**	12,734
Problem off-balance sheet credit risk in respect of the public (2)	**875**	1,800
Total problem commercial credit risk in respect of the public	**10,526**	14,534
Balance sheet credit risk in respect of others	**354**	443
Off-balance sheet credit risk in respect of others	**-**	-
Total problem commercial credit risk in respect of others	**354**	443
Total problem commercial credit risk	**10,880**	14,977
4. Unimpaired debts in arrears of 90 days or more	**1,499**	1,109
Of which: Housing loans for which allowance has been made according to the extent of arrears	**686**	788
Housing loans for which allowance has not been made according to the extent of arrears (3)	**240**	258
Unimpaired bonds in arrears of 90 days or more	**-**	-
Others	**573**	63

Note: Balance sheet and off-balance sheet credit risk is presented before the effect of the allowance for credit losses and before the effect of deductible collateral for the purpose of a borrower and a group of borrowers.

* It should be noted that the new method of accrual does not include CPI/foreign currency linkage differentials on the principal.

(1) Balance sheet credit (credit, bonds, other debts recognized in the balance sheet and assets in respect of derivative instruments) and off-balance sheet credit risk that is impaired, substandard or under special mention, except for balance sheet and off-balance sheet credit risk in respect of private individuals.

(2) As calculated for the purpose of restrictions on the indebtedness of a borrower or group of borrowers, except in respect of guarantees given by a borrower to secure the indebtedness of a third party, before the effect of deductible collateral.

(3) Housing loans, the minimum allowance in respect of which is calculated according to the extent of the arrears which are in arrears of between 3 months and 6 months, and other housing loans that are not impaired, which are in arrears of 90 days or more and the minimum allowance of which is not calculated according to the extent of arrears.

Below are a number of indices for reviewing credit risk according to the new directives:

	30 September 2011	31 December 2010
	%	
Balance of impaired credit to the public not accruing interest income as a percentage of the balance of credit to the public	**2.6**	3.9
Balance of credit to the public which is not impaired in arrears of 90 days or more as a percentage of the balance of credit to the public	**0.6**	0.5
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public	**1.6**	2.4
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of impaired credit to the public not accruing interest income	**62.2**	60.5
Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public	**2.9**	4.5

Net interest income after expenses in respect of credit losses of the Leumi Group in the first nine months of 2011 amounted to NIS 5,233 million, compared with NIS 4,920 million in the corresponding period last year, an increase of 6.4%.

Profit from net interest income after credit losses expenses of the Leumi Group for the third quarter of the year amounted to NIS 1,314 million, compared with NIS 1,800 million for the corresponding period in 2010, a decrease of 27.0%.

Total operating and other income of the Leumi Group in the first nine months of 2011 amounted to NIS 2,821 million, compared with NIS 3,021 million in the corresponding period last year, a decrease of 6.6%.

Total operating and other income of the Leumi Group for the third quarter of 2011 amounted to NIS 832 million, compared with NIS 983 million in the corresponding period in 2010, a decrease of 15.4%.

The following are the main changes in operating and other income:

	For the nine months ended			
	30 September 2011	30 September 2010	Change	
	NIS millions		NIS millions	%
Operating commissions [(1)]	**2,775**	2,733	42	1.5
Profits from investments in shares [(2)]	**(7)**	188	(195)	-
Other income [(3)]	**53**	100	(47)	(47.0)
Total operating and other income	**2,821**	3,021	(200)	(6.6)

The following are the main additional details regarding each of the abovementioned items:

1. Operating commissions (an increase of NIS 42 million)

a. An increase in income from credit handling and preparation of contracts amounting to NIS 48 million (19.9%).

b. An increase in income from credit cards amounting to NIS 34 million (5.6%). Of this: NIS 7 million in the third quarter.

c. An increase in financial product distribution commissions amounting to NIS 9 million (5.2%).

d. A decrease in income from securities transactions amounting to NIS 34 million (5.3%). Of this: NIS 21 million in the third quarter.

e. A decrease in income from management fees amounting to NIS 9 million (1.5%).

2. Profits from investments in shares (a decrease of NIS 195 million).

a. Net losses from the sale of available-for-sale securities and from impairment which is of a nature other than temporary, amounting to NIS 207 million, compared with net profits amounting to NIS 32 million in the corresponding period in 2010. In the third quarter, Leumi Group recorded an impairment amounting to NIS 239 million in respect of investments in the shares of Partner Communications Co. Ltd.

b. Profits from the realization and adjustment to fair value of securities for trading amounting to NIS 136 million, compared with zero in corresponding period in 2010, primarily attributable to the collection of the debt from Lehman Brothers.

c. Dividends from available-for-sale shares and shares for trading amounting to NIS 64 million, compared with NIS 156 million in the corresponding period in 2010, arising mainly from a reduction in a decline from dividends in Partner amounting to NIS 90 million.

3. Other income (a decrease of NIS 47 million) mainly as a result of the profits in severance pay provident funds amounting to NIS 33 million which were recorded last year and for which no profits were recorded this year.

The proportion of operating and other income to total income (i.e. net interest income before allowances for credit losses and operating and other income) was 33.6%, compared with 36.3% in the corresponding period in 2010 and 35.6% for the whole of 2010.

Operating and other income covers 45.3% of operating and other expenses, compared with cover of 53.4% in the corresponding period in 2010, and compared with 51.7% for the whole of 2010.

Total operating and other expenses of the Leumi Group in the first nine months of 2011 amounted to NIS 6,225 million, compared with NIS 5,656 million in the corresponding period in 2010, an increase of 10.1%.

In the third quarter of the year, operating and other expenses amounted to NIS 2,062 million, compared with NIS 1,805 million in the corresponding period in 2010, an increase of 14.2%.

Salary expenses in the first nine months of 2011 amounted to NIS 3,870 million, rising by 11.8%, compared to the corresponding period last year.

The increase in salary expenses is primarily attributable to the fact that in the first nine months of 2011, there were losses in the severance pay fund and provident fund, which are also used as a fund to cover the employees' pension liability, compared with the profits in the corresponding period last year, which affected a total of NIS 382 million. After canceling the effect of special salary expenses (as set forth on page 51), salary expenses were unchanged.

Salary expenses in the third quarter of 2011 increased by NIS 194 million, as a result of losses in the severance pay fund and provident fund.

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased in the first nine months of 2011 by NIS 162 million, an increase of 7.4%, compared with the corresponding period in 2010, mainly as a result of an increase in depreciation (of which: NIS 23 million in respect of the implementation of international accounting standards), building maintenance and marketing expenses, professional counseling expenses, mainly in connection with the implementation of the “Making Progress Together” Project in the Banking Division, a project for improving the operational model of the retail activity in Leumi.

Operating expenses constitute 74.1% of total income, compared with 68.0% in the corresponding period in 2010, and compared with 68.9% for the whole of 2010. After canceling the special salary expenses as set forth above, the efficiency ratio was 66.8%, compared with 65.7% and 66.0%, respectively. In addition, to record collections in respect of credit losses as collection of principal in lieu of interest income, there was an effect of 3.3% on the above change.

Total operating and other expenses (in annual terms) constitute 2.36% of total balance sheet, compared with 2.29% in the corresponding period in 2010, and 2.42% for the whole of 2010.

Operating profit before taxes of the Leumi Group for the first nine months of 2011 amounted to NIS 1,829 million, compared with NIS 2,285 million in the corresponding period in 2010, a decrease of 20.0%.

Operating profit before taxes in the third quarter of the year amounted to NIS 84 million, compared to NIS 978 million in the corresponding period in 2010, a decrease of 91.4%.

Provision for taxes on operating profit of the Leumi Group in the first nine months of 2011 amounted to NIS 664 million, compared with NIS 863 million in the corresponding period in 2010. The rate of the provision in the said period was some 36.3% of the pre-tax profit, compared with 37.8% in the corresponding period in 2010, a decrease of some 1.5 percentage points.

The rate of the provision in the third quarter of the year was 38.1%, compared to 42.4% in the corresponding period in 2010, a decrease of 4.3 percentage points.

Operating profit after taxes for the first nine months of 2011 amounted to NIS 1,165 million, compared with NIS 1,422 million in the corresponding period in 2010, a decrease of 18.1%.

Operating profit after taxes for the third quarter of the year amounted to NIS 52 million, compared with NIS 563 million in the corresponding period in 2010, a decrease of 90.8%.

The Group’s share in operating profit after taxes of companies included on equity basis amounted to a contribution of NIS 145 million in the first nine months of 2011, compared with NIS 259 million in the corresponding period in 2010. For details, see page 107 below

Net operating profit before attribution to holders of non-controlling interests in the first nine months of 2011 amounted to a profit of NIS 1,310 million, compared with a profit of NIS 1,681 million in the corresponding period in 2010, a decrease of 22.1%.

In the third quarter of the year, net operating profit amounted to NIS 167 million, compared with NIS 620 million in the corresponding period last year, a decrease of 73.1%.

Net operating profit attributable to holders of non-controlling interests in the first nine months of 2011 amounted to NIS 39 million, compared to a profit of NIS 29 million in the corresponding period in 2010.

Net operating profit attributable to the shareholders in the banking corporation of the Group for the first nine months of 2011 amounted to NIS 1,271 million, compared with a profit of NIS 1,652 million in the corresponding period in 2010, a decrease of 23.1%.

In the third quarter of the year, the net operating profit attributable to shareholders in the banking corporation amounted to NIS 156 million, compared to NIS 606 million in the corresponding period last year, a decrease of 74.3%.

Profit from extraordinary items after taxes before attribution to holders of noncontrolling interests in the first nine months of 2011 amounted to NIS 2 million, compared with a profit of NIS 186 million in the corresponding period in 2010, which was primarily attributable to the sale of the Bank's holdings in Paz Oil Company Ltd.

Net profit before attribution to holders of noncontrolling interests for the first nine months of 2011 amounted to NIS 1,312 million, compared with a profit of NIS 1,867 million in the corresponding period in 2010, a decrease of 29.7%.

Net profit attributable to holders of noncontrolling interests for the first nine months of 2011 amounted to NIS 39 million, compared with a profit of NIS 29 million in the corresponding period in 2010.

Net profit attributable to shareholders in the banking corporation for the first nine months of the year amounted to NIS 1,273 million, compared with a profit of NIS 1,838 million in the corresponding period in 2010, a decrease of 30.7%.

In the third quarter of the year, the net operating profit attributable to shareholders in the banking corporation amounted to NIS 155 million, compared to NIS 606 million in the corresponding period last year, a decrease of 74.4%.

Return on Shareholders' Equity – Average for the Period to Shareholders of the Banking Corporation in Annual Terms:

	First nine months of the year ended **30 September 2011**	30 September 2010
	%	
Net profit *	7.5	11.1
Net operating profit *	7.5	9.9

	2011			2010			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	%						
Net profit *	**2.7**	10.3	10.1	8.8	10.9	12.9	10.4
Net operating profit *	**2.7**	10.3	10.1	8.8	10.9	9.4	10.3

* Attributable to shareholders in the banking corporation.

Net basic operating profit per share attributable to shareholders of the banking corporation reached NIS 0.86 in the first nine months of 2011, compared with NIS 1.12 in the corresponding period in 2010.

Net basic profit per share attributable to shareholders of the banking corporation reached NIS 0.86 during the first nine months of 2011, compared with NIS 1.25 in the corresponding period in 2010.

Development of Profit during the last seven quarters

A. The following table is a condensed statement of operating profit and loss after taxes for the last seven quarters:

	2011			2010			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Net interest income	**1,692**	1,951	1,939	2,141	1,846	1,639	1,807
Income (expenses) in respect of credit losses **	**(378)**	(73)	102	(212)	(46)	(196)	(130)
Operating and other income	**832**	966	1,023	1,090	983	1,039	999
Operating and other expenses *	**(2,062)**	(2,078)	(2,085)	(2,295)	(1,805)	(1,944)	(1,907)
Operating profit before taxes *	**84**	766	979	724	978	538	769
Provision for taxes *	**(32)**	(259)	(373)	(376)	(415)	(136)	(312)
Operating profit after taxes *	**52**	507	606	348	563	402	457
Group's share in operating profits (losses) after taxes of companies included on equity basis after the effect of taxes	**115**	72	(42)	161	57	117	85
Net operating profit attributable to non-controlling interests	**(11)**	(18)	(10)	(10)	(14)	(12)	(3)
Net operating profit attributable to shareholders in the banking corporation *	**156**	561	554	499	606	507	539

* 2010 and first quarter of 2011 - restated – see note 1.b.4 below

** 2010 - provisions for doubtful debts according to the previous method.

B. The following table shows the development of the principal items in net interest income, before expense in respect of credit losses:

	2011			2010			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Current activity	**1,815**	1,889	1,836	1,799	1,633	1,493	1,638
Collection of interest in respect credit losses	**5**	(23)	42	179	91	151	144
Effect of non-interest bearing debts	**(100)**	(104)	(66)	(52)	(57)	(24)	(56)
Exchange rate differentials in respect of financing shares recorded in capital reserve and operating income	**(56)**	12	17	10	19	(14)	5
Profits from the sale of available-for-sale debentures, net	**55**	65	77	88	78	31	65
Realized and unrealized profits (losses) from adjustments to fair value of debentures for trading	**70**	29	(52)	(63)	29	111	70
Financing income (cost) in connection with hedging of overseas investments	**(122)**	17	3	73	51	(33)	40
Adjustments to fair value of derivative instruments	**(8)**	(2)	33	83	(22)	(96)	(84)
Effect of the known CPI	**33**	68	49	24	24	20	(15)
Total	**1,692**	1,951	1,939	2,141	1,846	1,639	1,807

From 2011, most of the collections are charged to expenses in respect of credit losses in the profit and loss statement.

C. The following table shows the quarterly development of the expenses in respect of credit losses:

	2011			2010*			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Individual allowance	**241**	24	(61)	248	63	244	159
Group allowance (2010 additional provision)	**137**	49	(41)	(36)	(17)	(48)	(29)
Total	**378**	73	(102)	212	46	196	130
Percentage of allowance out of total credit to the public (on an annual basis)	**0.64%**	0.13%	(0.18%)	0.38%	0.09%	0.37%	0.25%

* In 2010, provisions for doubtful debts according to the previous method.

D. The following table shows the quarterly development of operating and other income:

	2011			2010			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Operating commissions	**894**	906	975	977	912	917	904
Profits (losses) from investments in shares	**(75)**	38	30	28	14	100	74
Other income	**13**	22	18	85	57	22	21
Total operating and other income	**832**	966	1,023	1,090	983	1,039	999

E. The following table shows the quarterly development of salary expenses:

	2011			2010			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Salary expenses, excluding special salary expenses	**1,019**	1,100	1,136	1,084	1,075	1,087	1,103
Special salary expenses *	**229**	172	214	129	(21)	112	107
Of which:							
Supplement to provisions for severance pay and pension	**232**	165	183	33	(16)	126	(26)
Benefit (cancelation of benefit) in respect of sale of shares to employees	**(3)**	16	-	-	-	(22)	-
Actuarial changes in respect of jubilee bonus and pension *	**-**	(9)	31	96	(5)	8	133
Total salary expenses *	**1,248**	1,272	1,350	1,213	1,054	1,199	1,210

* Restated – see note 1.b(4) below.

F. The following table shows the quarterly development of operating and other expenses and maintenance of buildings and equipment:

	2011			2010			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Depreciation	**173**	191	167	165	160	157	156
Maintenance of buildings and equipment	**249**	241	241	254	241	234	224
Other expenses	**392**	374	327	** 663	350	354	317
Total operating and other expenses*	**814**	806	735	1,082	751	745	697

* Excluding salary.
** Including special and non-recurring expenses / provisions amounting to NIS 200 million.

Structure and Development of Assets and Liabilities [1]

Total assets of Leumi Group as at 30 September 2011 amounted to NIS 353.2 billion, compared with NIS 328.3 billion at the end of 2010, an increase of 7.6%, and an increase of 6.8% compared with 30 September 2010.

The value of the assets in the balance sheet denominated in and / or linked to foreign currency was some NIS 92.4 billion, some 26.2% of total assets. During the first nine months of 2011, the shekel depreciated against the U.S. dollar by 4.6%, and against the euro, by 6.5%. The changes in the rates of exchange in the first nine months of the year led to an increase of 1.3% in total assets.

Total assets under the Group's management – the total of the balance sheet as well as customers' securities portfolios, and provident funds and supplementary training funds and balances in pension counseling in respect of which operating management and custody services are provided - amount to some NIS 881 billion, compared with NIS 889 billion at the end of 2010 (some US$ 237 billion and US$ 251 billion, respectively, The decrease is attributable to the depreciation of the shekel against the dollar), as detailed below.

The following table sets out the development of the main balance sheet items:

			Rate of change	
	30 September 2011	31 December 2010	Since December 2010	Since September 2010
	NIS millions		%	
Total assets	**353,175**	* 328,322	7.6	6.8
Cash and deposits with banks	**54,662**	30,052	81.9	35.4
Securities	**38,356**	55,791	(31.3)	(29.5)
Credit to the public	**237,315**	223,981	6.0	9.3
Buildings and equipment	**3,615**	3,638	(0.6)	0.4
Deposits of the public	**267,249**	249,584	7.1	8.7
Deposits from banks	**6,327**	2,691	135.1	(6.8)
Debentures, capital notes and subordinated capital notes	**28,573**	26,939	6.1	(0.6)

* Restated – see page 33 above.

Deposits of the public amounted to NIS 267.2 billion as at 30 September 2011, compared with NIS 249.6 billion as at 31 December 2010, an increase of 7.1%, and compared with 30 September 2010, an increase of 8.7%.

The depreciation of the shekel in relation to the dollar and most foreign currencies in the first nine months of 2011 contributed in total to a 1.9% increase in total deposits of the public.

(1) The changes in percentages were calculated according to the balances in NIS millions.

The following table sets out the development of deposits of the public by principal operating segments:

Segment	**30 September 2011**	31 December 2010	Change
	NIS millions		%
Households	**126,558**	118,266	7.0
Small businesses	**18,971**	16,579	14.4
Corporate banking	**28,377**	26,281	8.0
Commercial banking	**43,363**	36,421	19.1
Private banking	**35,815**	36,241	(1.2)
Financial management, capital markets and other	**14,165**	15,796	(10.3)
Total	**267,249**	249,584	7.1

Debentures, capital notes and subordinated capital notes totaled NIS 28.6 billion on 30 September 2011, compared with NIS 26.9 billion on 31 December 2010, an increase of 6.1%, and compared with 30 September 2010, an decrease of 0.6%.

Off-balance sheet activity

The following table sets out the development of balances of the customers' (off-balance sheet) financial assets[(1)] managed by Leumi Group:

	30 September 2011	31 December 2010	Change	
	NIS millions		NIS millions	%
Securities portfolios	**463,222**	495,324	(32,102)	(6.5)
Of which: managed by mutual funds[(2) (3)]	**54,306**	57,129	(2,823)	(4.9)
Provident and pension funds[(2) (3)]	**42,849**	44,014	(1,165)	(2.6)
Supplementary training funds[(2) (3)]	**21,297**	21,064	233	1.1
Total	**527,368**	560,402	(33,034)	(5.9)

(1) Including a change in the market value of securities and in the value of securities of mutual and provident funds held in custody, for which operating management and custody services are provided.
(2) The Group in Israel does not manage any mutual funds, provident funds or supplementary training funds.
(3) Assets of customers in respect of which the Group provides operating management services, including the fund balances of customers who are counseled by Leumi.

The decrease in the balances of monetary assets of the managed customers was primarily attributable to a decline in the market value of the portfolios.

Net credit to the public totaled NIS 237.3 billion on 30 September 2011 compared with NIS 224.0 billion on 31 December 2010, an increase of 6.0%, and compared with 30 September 2010, an increase of 9.3%. After canceling the effect of an increase in the allowance for credit losses (individual and group) according to the new directives, credit to the public increased by 6.6% and 9.9%, respectively.

The depreciation of the shekel in relation to the dollar and a devaluation in relation to most foreign currencies in the first nine months of 2011 contributed in total to a 1.1% increase in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, on 30 September 2011, amounted to NIS 8.1 billion, compared with NIS 11.7 billion on 31 December 2010, a decrease of 30.7%.

The following table sets out the development of the overall credit risk[(1)] to the public by principal sectors of the economy:

Economy Sectors	**30 September 2011** Overall credit risk to the public	Percentage of total	31 December 2010 Overall credit risk to the public	Percentage of total	Change
	NIS millions	%	NIS millions	%	%
Agriculture	**2,200**	**0.6**	2,162	0.6	1.8
Industry	**53,362**	**14.4**	46,919	13.7	13.7
Construction and real estate [(2)]	**81,538**	**22.0**	73,559	21.4	10.8
Electricity and water	**1,957**	**0.5**	2,109	0.6	(7.2)
Trade	**31,142**	**8.4**	25,923	7.6	20.1
Hotels, accommodation and food	**4,986**	**1.3**	4,957	1.4	0.6
Transportation and storage	**6,925**	**1.9**	5,536	1.6	25.1
Communications and computer services	**8,734**	**2.4**	7,177	2.1	21.7
Financial services [(3)]	**45,111**	**12.0**	48,650	14.2	(7.3)
Other business services	**11,710**	**3.2**	9,219	2.7	27.0
Public and community services	**8,096**	**2.2**	8,624	2.5	(6.1)
Private individuals - housing loans	**58,876**	**15.9**	54,772	16.0	7.5
Private persons – other	**56,482**	**15.2**	53,481	15.6	5.6
Total	**371,119**	**100.0**	343,088	100.0	8.2

(1) Including off-balance sheet credit risk, investments of the public in debentures and other assets in respect of derivatives. Data as at 30 September 2011 are before an allowance for credit losses and data for 31 December 2010 are after an allowance for credit losses.

(2) Including housing loans extended to purchasing groups that are in the process of construction amounting to NIS 889 million and off-balance sheet credit risk amounting to NIS 2,021 million, compared to NIS 853 million and NIS 1,625 million, respectively, at 31 December 2010.

The following table shows the quarterly development of credit to the public by main activity sector:

	2011 3rd Quarter	2nd Quarter	1st Quarter	2010 4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Households*	**81,579**	79,720	77,826	76,341	73,136	71,156	68,248
Small businesses	**19,604**	19,371	19,153	19,018	17,614	17,544	17,590
Commercial banking	**50,108**	46,376	46,116	47,226	46,302	45,259	44,210
Corporate banking	**76,507**	74,001	73,404	73,163	72,390	70,845	70,415
Private banking	**8,171**	7,587	7,666	7,738	6,859	6,666	6,150
Financial management, capital markets and others	**1,346**	1,293	906	495	917	983	1,000
Total	**237,315**	228,348	225,071	223,981	217,218	212,453	207,613

* Credit to households also includes housing loans (mortgages).

Pledge in favor of the Bank of Israel

On 21 May 2008, the Bank signed a debenture, whereby it granted a first degree floating charge in favor of the Bank of Israel, on its rights to receive amounts and monetary shekel payments that are due and that will become due to the Bank from time to time, from customers which are corporations (established according to the laws of the State of Israel), which are not in arrears with their repayments to the Bank of credits received from it, and where the average duration of the credit does not exceed three years, and which was granted or which will be granted to these customers by the Bank. The charge is in an amount equal to the level of the amounts secured by the debenture, from time to time, up to an amount of NIS 1.1 billion.

This charge is to secure monies that will be required for the Bank's activities for the purpose of its activities with the CLS clearing house.

Additional data on total credit is set forth below.

The following table sets out the breakdown of total credit to the public* and off-balance sheet credit risk according to the size of the credit to a single borrower:

Credit ceiling in NIS thousands		**30 September 2011** Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	**83.3**	**6.0**	**15.9**
80	600	**14.1**	**17.7**	**9.8**
600	1,200	**1.6**	**9.3**	**2.5**
1,200	2,000	**0.4**	**4.4**	**1.7**
2,000	8,000	**0.4**	**8.8**	**4.8**
8,000	20,000	**0.1**	**7.4**	**5.1**
20,000	40,000	**0.05**	**7.3**	**6.0**
40,000	200,000	**0.04**	**17.3**	**18.4**
200,000	800,000	**0.01 ****	**14.4**	**19.3**
Above 800,000		**0.00 *****	**7.4**	**16.5**
Total		**100%**	**100%**	**100%**

Credit ceiling in NIS thousands		31 December 2010 Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	84.4	6.2	16.5
80	600	13.3	18.8	10.8
600	1,200	1.4	8.8	3.5
1,200	2,000	0.4	4.1	1.8
2,000	8,000	0.3	8.9	5.3
8,000	20,000	0.1	7.7	5.7
20,000	40,000	0.05	7.1	6.3
40,000	200,000	0.04	16.3	19.5
200,000	800,000	0.01 **	14.1	18.3
Above 800,000		0.00 ***	8.0	12.3
Total		100%	100%	100%

* In 2011, before individual allowances in respect of credit losses and in 2010, after deducting the individual allowances for credit losses.

** On 30 September 2011 - 156 borrowers and on 31 December 2010 - 139 borrowers

*** On 30 September 2011 - 27 borrowers and on 31 December 2010 - 23 borrowers.

The following are details of the balances of credit to the public and of the off-balance sheet credit risk (a) which exceed NIS 800 million per single borrower, based on a more detailed breakdown of credit areas and based on a breakdown of economic sectors:

1. Credit risk according to size of credit to the borrower:

		30 September 2011					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit	
Credit ceiling (in NIS millions)		Total	Of which: related parties	Total	Of which: related parties	Total	Of which: related parties
From	To			In NIS millions			
800	1,200	**15**	**1**	**6,599**	**724**	**7,722**	**229**
1,200	1,600	**4**	**-**	**3,216**	**-**	**1,820**	**-**
1,600	2,000	**5**	**-**	**4,809**	**-**	**4,031**	**-**
2,000	2,400	**-**	**-**	**-**	**-**	**-**	**-**
2,400	2,800	**1**	**-**	**2,036**	**-**	**684**	**-**
2,800	3,085	**1**	**-**	**379**	**-**	**2,617**	**-**
3,200	3,540	**1**	**-**	**1,040**	**-**	**2,500**	**-**
Total		**27**	**1**	**18,079**	**724**	**19,374**	**229**

All the related parties are corporations in which the Bank holds up to 20% and they are not controlling shareholders of the Bank. The credits specified in the above table do not include any debts for which specific allowances were made for credit losses.

		31 December 2010					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit	
Credit ceiling in NIS millions		Total	Of this, related parties	Total	Of this, related parties	Total	Of this, related parties
From	To				In NIS millions		
800	1,200	14	-	8,017	-	5,445	-
1,200	1,600	4	1	4,032	890	1,461	516
1,600	2,000	3	-	969	-	4,669	-
2,000	2,400	-	-	-	-	-	-
2,400	2,800	1	-	2,607	-	59	-
2,800	3,200	-	-	-	-	-	-
3,200	3,630	1	-	2,612	-	1,018	-
Total		23	1	18,237	890	12,652	516

2. Credit risk according to industry sectors:

	30 September 2011		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
		In NIS millions	
Industry	**9**	**6,129**	**8,289**
Construction and real estate	**8**	**3,617**	**4,030**
Public and community services	**1**	**884**	**19**
Communications and computer services	**2**	**2,071**	**1,097**
Financial services	**6**	**4,756**	**4,863**
Electricity and water	**1**	**622**	**1,076**
Total	**27**	**18,079**	**19,374**

	31 December 2010		
	Total number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
		In NIS millions	
Industry	8	6,295	6,000
Construction and real estate	5	3,208	1,636
Public and community services	1	892	9
Communications and computer services	2	1,896	268
Financial services	6	5,496	4,268
Electricity and water	1	450	471
Total	23	18,237	12,652

The indebtedness of the six largest groups of borrowers represented 8.5% of total credit risk as of 30 September 2011 and 79.1% of the capital calculated for the limitation on the six largest groups of borrowers.

3. Groups of borrowers[1]

The Bank monitors all components of the exposure of groups of borrowers by means of an automated system that the Bank employs for routine reporting to the Bank of Israel and for internal monitoring requirements and for examining compliance with the indebtedness level of the groups within the regulatory limits. Through this system, full control on exposure to groups of borrowers is maintained. In addition, there is an internal process in which a central official ("a group head") is determined for each of the large groups, and a flow of information regarding all components of the borrowing groups is established and coordinated, with the aim of maximizing control over credit exposure and the concentration risk that it generates. This process, which is carried out both among the different units in the Bank, and in its various subsidiaries, requires the officials involved in the management of the borrowing groups to provide a regular flow of information relating to credit requests that come up for discussion and the risk of the details in the group, exercising discretion with regard to the amount of information and the parties to whom it is transferred.

1. A "group of borrowers" includes all of the following together: the borrower, a person who controls it and anyone controlled by these entities. When a corporation is controlled by more than one person, those controlling persons for whom the controlled corporation is material (for example: from a capital aspect), including the controlled corporation and anyone who is controlled by them, should be included in one group of borrowers.

Moreover, once a year, there is a requirement for a comprehensive review relating to each of the 10 largest groups of borrowers to be presented to the Board of Directors.

On the level of managing the Bank's credit portfolio as a whole, an internal process of estimating the concentration risk inherent in exposures to all of the large groups of borrowers is applied in the Bank, and the impact of this risk on the overall level of risk of the portfolio. The said process enables both the quantification of the appropriate allocation of capital according to the Proper Conduct of Banking Business Directive and the regular monitoring of the trends of this concentration component as a part of the development trends of the whole portfolio.

Credit to the groups of borrowers whose indebtedness exceeds 15% of the Bank's capital (for capital adequacy purposes) is as follows:

30 September 2011					
Groups of borrowers	Balance sheet credit risk	Off-balance sheet credit risk*	Total credit risk	Of which: derivative instruments	% of capital
	In NIS millions				
1	**6,042**	**2,761**	**8,803**	**560**	**22.1**
2	**6,098**	**1,156**	**7,254**	**606**	**18.2**

Problem debts

The risk of problem credit in accordance with the new regulations after individual provisions applicable from 1 January 2011:

	30 September 2011			31 December 2010 – proforma		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	In NIS millions					
Impaired debts	**4,726**	**177**	**4,903**	6,016	661	6,677
Substandard debts	**740**	**8**	**748**	969	50	1,019
Special mention debts	**3,641**	**524**	**4,165**	3,804	899	4,703
Total	**9,107**	**709**	**9,816**	10,789	1,610	12,399

Problem credit risk:

	30 September 2011	31 December 2010
	Problem credit risk	Problem credit risk
	In NIS millions	
Commercial problem credit risk	**10,880**	14,977
Retail problem credit risk	**1,390**	1,569
Total	**12,270**	16,546
Allowance for credit losses	**2,454**	4,147
Problem credit after allowance for credit losses	**9,816**	12,399

The following table sets out the problem credit (1)(6)(7) according to the classifications determined in the directives of the Supervisor of Banks until 31 December 2010:

	31 December 2010	30 September 2010
	NIS millions	
Problem debts(1)		
Non-performing	1,364	1,522
Restructured (2)	906	785
To be restructured (3)	482	593
In temporary arrears	297	504
For special mention*	9,921	10,905
Total balance sheet credit to problem borrowers (1)	12,970	14,309
Off-balance sheet credit risk to problem borrowers (1) (5)	2,634	2,778
Debentures of problem borrowers (public)	465	525
Total overall credit risk of banks (debentures + deposits in banks)	6	-
Other assets in respect of derivatives of problem borrowers	48	56
Total overall credit risk in respect of problem borrowers(1)	16,123	17,668
Assets received in respect of repaid credit	81	79
*of which: debts for which there is a specific provision (4)	5,946	6,341
*of which: credit for housing for which there is a provision according to the extent of the arrears	383	363

(1) Not including problem loans that are covered by collateral eligible for deduction for the purpose of restrictions on the indebtedness of a borrower and a group of borrowers (Proper Conduct of Banking Business Directive No. 313).
(2) Credit that was restructured during the course of the current year and also credit that was restructured in previous years with a waiver of income.
(3) Credit to borrowers in respect of whom a decision to restructure has been made by the banking corporation's management, but the restructuring has not yet been implemented.
(4) Apart from credit for housing in respect of which there is a provision in accordance with the extent of the arrears.
(5) As calculated for the purposes of limits on the indebtedness of a single borrower and a group of borrowers, except in respect of guarantees given by a borrower to secure an obligation of a third party.
(6) Credit to problem borrowers as detailed in the disclosure format.
(7) Problem debts include credit classifications from the implementation of Proper Conduct of Banking Business Directive No. 325 "Management of Current Account Credit Lines". Pursuant to the above directive, and to clarifications of the Supervisor of Banks, the Bank is required to classify any excess over approved credit lines (where excesses are above NIS 1,000), if the Bank charges the customer excess interest. In this situation, the excess is to be classified as a non-accrual loan, and credit within the limit and the remainder of the customer's obligations must be classified as a special mention loan. The effect of the said directive has been to increase non-accrual loans by NIS 49 million, and special mention loans by NIS 1,163 million at the end of 2010.

Total problem debts under the old method as at 31 December 2010 amounted to NIS 16.1 billion, while according to the new regulation, problem debts amounted to NIS 12.4 billion. The decrease of NIS 3.7 billion derives mainly from a change in consideration of Proper Conduct of Banking Management Directive No. 325, as noted above, from a resultant cancelation of the classification of special mention debts, and from an improvement in the total problem debts.

Credit to Governments amounted to NIS 403 million on 30 September 2011, compared with NIS 379 million on 31 December 2010, an increase of 6.3%, and compared with 30 September 2010, an increase of 4.7%.

Securities

The Group's investments in securities amounted to NIS 38.4 billion on 30 September 2011, compared with NIS 55.8 billion, a decrease of 31.3%**,** compared with 31 December 2010, and a decrease of 29.5%, compared to 30 September 2010. The decrease in securities derives from the realization of debentures and the deposit of the proceeds, mostly in the Bank of Israel and partly in foreign banks. This decrease is intended, *inter alia*, to reduce the exposure of the Bank to risks in the nostro portfolio.

Securities are classified into three categories: securities for trading, available-for-sale securities and bonds held to maturity. (Currently, the Group does not hold any bonds held to maturity).

Securities for trading are presented in the balance sheet at fair value and the difference between fair value and adjusted cost is charged to the statement of profit and loss. Available-for-sale securities are presented at fair value, where the difference between fair value and adjusted cost is presented as a separate item in shareholders' equity in other overall profit, called "adjustments for presentation of available-for-sale securities at fair value" ("shareholders' equity"), less the related tax, but whenever the decrease in value is of a non-temporary nature the difference is charged to the statement of profit and loss. Debentures held to maturity are presented at adjusted cost (par value plus accumulated interest and linkage differentials, less/plus a discount or premium).

For details of the accounting policy and treatment of the valuation of the securities portfolio and distinguishing between impairment of a temporary nature or other than temporary, see chapter, "Accounting Policy on Critical Subjects" on page 31 and note 1 to the annual financial statements for 2010.

The following table sets out the classification of the securities item in the consolidated balance sheet as at in accordance with the rules set forth above:

	30 September 2011				
	Adjusted cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Debentures					
Available-for-sale	**26,651**	**228**	**(689)**	**26,190**	**26,190**
For trading	**9,429**	*** 65**	*** (72)**	**9,422**	**9,422**
	36,080	**293**	**(761)**	**35,612**	**35,612**
Shares and funds					
Available-for-sale	**2,130**	**298**	**(37)**	**2,391**	**2,391**
For trading	**355**	*** 3**	*** (5)**	**353**	**353**
	2,485	**301**	**(42)**	**2,744**	**2,744**
Total securities	**38,565**	**594**	**(803)**	**38,356**	**38,356**

* Carried to profit and loss

	31 December 2010				
	Adjusted cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Debentures					
Available-for-sale	44,271	418	(432)	44,257	44,257
For trading	8,367	* 90	* (59)	8,398	8,398
	52,638	508	(491)	52,655	52,655
Shares and funds					
Available-for-sale	2,211	653	(5)	2,859	2,859
For trading	636	-	* (359)	277	277
	2,847	653	(364)	3,136	3,136
Total securities	55,485	1,161	(855)	55,791	55,791

* Carried to profit and loss

As at 30 September 2011, some 74.5% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 25.5% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 7.2% of the value of the securities represents investments in shares of companies that are not presented on equity basis, but according to cost, or to the market value of the shares traded on the stock exchange.

The following table sets out details of the Group's activity in debentures:

	30 September 2011	31 December 2010
	NIS millions	
Debentures redeemed and/or sold (held to redemption and available-for-sale)	**29,621**	30,709
Purchases of debentures held to redemption and available-for-sale	**11,022**	30,082
Net profit from investments in debentures:		
Financing income (expenses) on accrual basis	**1,974**	(951)
Net profit from sale of available-for-sale debentures	**197**	262
Profit realized and/or unrealized from adjustments to fair value of debentures for trading	**47**	147

The following table sets out details of the composition of investments in debentures according to type of issuer and linkage sectors:

	30 September 2011			31 December 2010		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions			NIS millions		
Unlinked Israeli currency	**12,343**	**-**	**663**	22,961	-	523
CPI-linked Israeli currency	**6,064**	**-**	**923**	6,399	-	937
Foreign currency including foreign currency-linked	**2,023**	**687**	**12,909**	1,810	2,851	17,174
Total debentures *	**20,430**	**687**	**14,495**	31,170	2,851	18,634

* Of which NIS 2,250 million subordinated debentures.

In the first nine months of 2011, there was a decrease of some NIS 4.1 billion, or about 22.2%, in Group investments in corporate debentures, including banks, mainly in foreign currency debentures abroad. The decrease is attributable to a reduction in risk exposure. Some 59% of the debenture portfolio is invested in debentures of leading member governments in the OECD organization and in the Israeli government.

The following table sets out the value of securities by method of calculation in NIS millions:

	30 September 2011	31 December 2010
Securities traded on an active market*	**30,676**	47,874
Securities according to prices determined according to external models**	**6,039**	6,339
Securities according to quotation from counterparty or to cost	**1,641**	1,578
Total	**38,356**	55,791

* Including fair value calculated in accordance with models based on available market data.

** Including securities amounting to NIS 502 million which were revalued by the Bank on the basis of the discounting rates independently determined in the Bank by Mirvach Hogen (31 December 2010 by Sha'arey Ribit).

For further details, see note 2 to the financial statements.

Below is a table of details of investments in corporate debentures (not banks) only issued in Israel and abroad, by sector of the economy (available-for-sale and trading portfolio):

	30 September 2011	
	Issued in Israel	Issued abroad
Sector of economy	NIS million	
Agriculture	**-**	**-**
Industry	**91**	**361**
Construction and real estate	**40**	**90**
Electricity and water	**214**	**179**
Trade	**355**	**-**
Transportation and storage	**45**	**-**
Communications and computer services	**76**	**150**
Financial services	**664**	**5,707**
Other business services	**7**	**45**
Public and community services	**24**	**77**
Total	**1,516**	**6,609**

The available-for-sale portfolio

The following table shows the composition of the available-for-sale portfolio:

	30 September 2011		31 December 2010		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**14,605**	**11,585**	19,616	24,641	(5,011)	(13,056)
Shares and funds	**707**	**1,684**	563	2,296	144	(612)
Total	**15,312**	**13,269**	20,179	26,937	(4,867)	(13,668)

a. In the first nine months of 2011, impairment of NIS 1,008 million (before tax) was recorded to shareholders' equity mainly due to a fall in the value of debentures of banks and companies, compared with an increase in value of NIS 409 million (before taxes) in the corresponding period last year.

b. In addition, profits of NIS 197 million from the sale of debentures were recorded to profit and loss after setting off securities of a nature other than temporary, compared with profits of NIS 174 million in the corresponding period last year.

c. The following table shows a summary of the above results in respect of the available-for-sale portfolio (including financing income):

	For the period ended		
	30 September 2011	30 September 2010	31 December 2010
	NIS millions		
Profits (losses) in respect of securities which were recorded to profit and loss	**1,685**	(159)	(546)
Of which: Exchange rate differentials	**974**	(1,081)	(1,866)
Adjustments to capital reserve of available-for sale securities	**(1,008)**	409	235

d. The following table shows net balances in capital (net adjustments in respect of available-for-sale securities before tax):

	30 September 2011	31 December 2010	Quarterly changes in 2011		
			1st quarter	2nd quarter	3rd quarter
	NIS millions				
Shares	**261**	648	(141)	(190)	(56)
Israel government debentures	**141**	115	(226)	32	220
Foreign government debentures	**(1)**	3	(18)	11	3
Other debentures *	**(601)**	(132)	63	4	(536)
Other credit instruments	**(111)**	63	(2)	(48)	(124)
Total	**(311)**	697	(324)	(191)	(493)
Related tax	**97**	(229)	108	13	205
Net total	**(214)**	468	(216)	(178)	(288)

* Of which the balance of the accumulated impairment in respect of subordinated notes issued by foreign banks is some NIS (280) million.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 30 September 2011, amounted to a negative amount of NIS 214 million (after the effect of tax). These amounts represent net loss which had not been realized at the dates of the financial statements.

The value of the available-for-sale portfolio decreased from the end of September 2011 until 21 November 2011, due to an impairment amounting to NIS 26 million.

e. The following is the impairment in value of available-for-sale securities charged to capital as at 30 September 2011:

		Duration of decline in value since commencement of the decline*				
		Up to 6 months	6-9 months	9-12 months	More than 12 months	Total amount
		NIS millions				
Rate of decline						
Up to 10%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**5**	**11**	**1**	**17**	**34**
	Other debentures	**128**	**5**	**8**	**108**	**249**
	Total	**133**	**16**	**9**	**125**	**283**
10%- 20%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**15**	**-**	**-**	**9**	**24**
	Other debentures	**51**	**24**	**24**	**124**	**223**
	Total	**66**	**24**	**24**	**133**	**247**
20%-30%	Shares	**7**	**-**	**-**	**-**	**7**
	Asset-backed debentures	**5**	**-**	**-**	**5**	**10**
	Other debentures	**-**	**-**	**-**	**121**	**121**
	Total	**12**	**-**	**-**	**126**	**138**
30%-35%	Shares	**30**	**-**	**-**	**-**	**30**
	Asset-backed debentures	**-**	**-**	**-**	**2**	**2**
	Other debentures	**-**	**-**	**-**	**19**	**19**
	Total	**30**	**-**	**-**	**21**	**51**
35%-40%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**7**	**7**
	Total	**-**	**-**	**-**	**7**	**7**
Above 40%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**-**	**-**
	Total	**-**	**-**	**-**	**-**	**-**
Total amount	Shares	**37**	**-**	**-**	**-**	**37**
	Asset-backed debentures	**25**	**11**	**1**	**33**	**70**
	Other debentures	**179**	**29**	**32**	**379**	**619**
Overall total		**241**	**40**	**33**	**412**	**726**

For the treatment of revaluing the securities and the distinction between temporary decreases in value and those of a non-temporary nature, see page 59 in the 2010 Financial Statements.

* The duration of the impairment since the beginning of the decline means the duration since the beginning of any impairment the value at which the security was purchased.

Trading Portfolio

The following table shows the composition of the trading portfolio:

	30 September 2011		31 December 2010		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**903**	**8,519**	2,119	6,279	(1,216)	2,240
Shares and funds	**-**	**353**	99	178	(99)	175
Total	**903**	**8,872**	2,218	6,457	(1,315)	2,415

In respect of debentures for trading, realized and unrealized profits amounting to NIS 47 million were recorded in the profit and loss statement, compared with profits of NIS 210 million in the corresponding period in 2010, and in respect of shares and funds, realized and unrealized profits were recorded amounting to NIS 136 million, compared to profits of NIS 0 million in the corresponding period in 2010.

In September 2008, following the collapse of the Lehman Brothers Investment Bank Group ("the Investment Bank"), a total of some NIS 100 million in respect of the sale of a security issued by a member company of the Investment Bank Group ("the Security") was not repaid to the Bank. On 17 August 2011, a verdict of the Bankruptcy Court in the United States, with the consent of the parties, was handed down to dismiss the legal proceedings being conducted against the Bank in the United States by the trustee of Lehman Brothers Inc. ("LBI"), as a response to the legal proceedings being taken by the Bank in Israel to exhaust its legal rights for the recovery of the monies due to the Bank.

The agreement of the trustee of LBI to dismiss the legal proceedings against the Bank and against another Israeli bank arose from the fact that the Bank agreed to remove the attachment order it imposed on monies in Israel. The Bank's agreement to remove the order results from a number of arrangements the Bank reached with companies in the Investment Bank Group, including: legal proceedings in Israel between the Bank and Lehman Brothers International (Europe) ("LBIE") had finished; and proceedings in Israel against Lehman Brothers Holdings ("LBHI") and Lehman Brothers Securities N.V. will be closed.

The removal of the legal proceedings in Israel stemmed from the fact that the Bank reached an arrangement with the trustee over the assets of LBIE, whereby he would be permitted to exercise all of the attachment orders imposed on the rights of LBIE in Israel and to continue holding the security. The Bank exercised the aforesaid attachment orders and sold the security, for an aggregate total of NIS 210 million.

With respect to the said arrangements, the Bank recorded a gain of some NIS 143 million in the third quarter of 2011 (before tax).

Investments in Securities Issued Abroad

The Group's securities portfolio includes some NIS 16.2 billion (some US$ 4.4 billion) of securities issued abroad, all of which (but for some 1%) are investment grade securities, of which some 90% are rated 'A-' and above, and of which some 17% are rated 'AAA'. The portfolio includes subordinated debentures issued by foreign banks having a fair value of NIS 2,250 million, some 13.9% of the total investment in securities issued abroad. Of the said portfolio, some NIS 15.3 billion (some US$ 4.1 billion) is classified in the available-for-sale portfolio, some NIS 0.9 billion (some US$ 0.2 billion) is classified in the securities for trading portfolio.

The following table shows the composition of investments in securities issued abroad:

	30 September 2011		31 December 2010	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
Balance sheet value	NIS millions			
Government debentures (*)	**2,488**	**129**	3,831	750
Debentures of banks and financial institutions	**8,572**	**595**	10,589	348
Asset-backed debentures	**2,414**	**109**	4,341	213
Other debentures	**1,131**	**70**	855	808
Shares and funds	**707**	**-**	563	99
Total	**15,312**	**903**	20,179	2,218

(*) Of which: Government of Israel debentures issued abroad at 30 September 2011, NIS 1,869 million in the available portfolio and NIS 61 million in the trading portfolio, and at 31 December 2010, NIS 1,730 million in the available portfolio.

Management of the Bank estimates that the impairment, which was taken to a capital reserve in respect of the available-for-sale portfolio is temporary in nature. The Bank intends, and is able, to continue to hold the investments until the expected return of the full cost of the assets or until maturity. Therefore, this impairment is charged to capital. The net decrease in value (the offset between increase and decreases in value), which is carrieded to capital in respect of securities issued abroad, from the date of purchase until 30 September 2011 amounts to some NIS 503 million (some NIS 330 million after taxes).

The following table shows the fair value as at 30 September 2011 of debentures of banks and financial institutions abroad (excluding asset-backed securities):

	AAA to AA-	A+	A	A-	BBB+ to BBB-	BB+ to B-	Unrated	Total
	NIS millions							
United Kingdom	**1,026**	**126**	**26**	**240**	**142**	**74**	**8**	**1,642**
Austria (1)	**-**	**-**	**21**	**-**	**-**	**-**	**-**	**21**
Italy (1)	**423**	**-**	**-**	**-**	**-**	**-**	**-**	**423**
Ireland (1) (6)	**-**	**-**	**-**	**-**	**-**	**21**	**-**	**21**
Belgium (1)	**-**	**-**	**313**	**-**	**-**	**-**	**-**	**313**
Germany (1)	**48**	**144**	**9**	**99**	**-**	**-**	**34**	**334**
Denmark	**-**	**99**	**42**	**-**	**-**	**-**	**-**	**`141**
The Netherlands (1)	**416**	**291**	**61**	**130**	**18**	**-**	**-**	**916**
Luxembourg (1)	**-**	**36**	**-**	**-**	**-**	**-**	**14**	**50**
Spain (1) (6)	**263**	**-**	**-**	**37**	**51**	**-**	**30**	**381**
France (1)	**738**	**15**	**-**	**-**	**-**	**-**	**-**	**753**
Switzerland	**-**	**-**	**-**	**-**	**-**	**-**	**62**	**62**
Australia	**588**	**-**	**-**	**-**	**-**	**-**	**-**	**558**
Sweden	**43**	**-**	**69**	**-**	**11**	**-**	**35**	**158**
New Zealand	**245**	**-**	**-**	**-**	**-**	**-**	**-**	**245**
Norway	**30**	**34**	**-**	**-**	**-**	**-**	**-**	**64**
Canada (2)	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**19**
Other (3)	**1**	**109**	**118**	**-**	**-**	**-**	**14**	**242**
United States – by bank (2)								
Citigroup Inc. NY	**-**	**74**	**-**	**528**	**-**	**-**	**-**	**602**
Bank of America (including Merrill Lynch)	**-**	**-**	**527**	**-**	**4**	**-**	**-**	**531**
Goldman, Sachs and Co.	**54**	**305**	**-**	**-**	**-**	**-**	**-**	**359**
Morgan Stanley	**-**	**-**	**269**	**-**	**-**	**-**	**-**	**269**
Wells Fargo Bank N.A.	**-**	**281**	**-**	**-**	**45**	**-**	**-**	**326**
JP Morgan Chase	**136**	**121**	**4**	**-**	**-**	**-**	**-**	**261**
United States – other (4)	**91**	**63**	**178**	**96**	**21**	**-**	**29**	**478**
Total (5)	**4,091**	**1,698**	**1,637**	**1,130**	**292**	**95**	**226**	**9,169**

(1) Countries in the Eurozone bloc amounting to NIS 3,213 million.
(2) Countries in North America (United States and Canada) amounting to NIS 2,836 million,
(3) This amount includes investments in 3 countries
(4) This amount includes investments in 14 banks in the United States.
(5) Including subordinated debentures, the fair value of which as at 30 September 2011 was NIS 2,250 million (including the available-for-sale and trading portfolios) and as at 31 December 2010, NIS 2,000 million.
(6) For further details in connection with credit exposure, see page 145.

Investments in foreign asset-backed securities

The Group's securities portfolio as of 30 September 2011 includes some NIS 2.5 billion (some US$ 0.7 billion) of asset-backed securities (both mortgage-backed and non-mortgage-backed), all of which (save for 3%) are rated 'A-' and above, of which some 80% are rated 'AAA'. Of the said portfolio, some NIS 2.4 billion (some US$ 0.65 billion) is classified in the available-for-sale portfolio, and the balance in the securities held for trading portfolio.

The following table shows a summary of investments in asset-backed securities in the available-for-sale portfolio as at 30 September 2011:

	Adjusted value	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	**1,660**	**23**	**(13)**	**1,670**
ABS-asset-backed securities (other than mortgage-backed):	**800**	**1**	**(57)**	**744**
Of which: CLO	**734**	**1**	**(56)**	**679**
SCDO and other	**66**	**-**	**(1)**	**65**
Total	**2,460**	**24**	**(70)**	**2,414**

For the definition of asset-backed securities see note 3 to the 2010 Financial Statements.

Securitization Exposures

Investment in asset-backed securities by type of exposure (Table 9(f) – Basel II)

	30 September 2011	31 December 2010
	Accrued amount of exposure	
	NIS millions	
Mortgage-backed Securities (MBS):		
Pass-through securities:		
Securities guaranteed by US Government GNMA	**116**	1,734
Securities issued by FNMA and FHLMC	**128**	257
Other securities	**6**	7
Other mortgage-backed securities: Securities issued by FHLMC, FNMA, or GNMA, or guaranteed by these entities	**1,057**	1,451
Other mortgage-backed securities	**461**	48
Total mortgage-backed securities (MBS)	**1,768**	3,497
Asset-backed securities (ABS):		
Debtors in respect of credit cards	**39**	38
Lines of credit for any purpose secured by dwelling	**5**	5
Credit for purchase of vehicle	**-**	152
Other credit to private persons	**5**	6
Credit not to private persons	**5**	5
CLO debentures	**679**	760
SCDO debentures	**1**	57
Others	**21**	34
Total asset-backed (ABS)	**755**	1,057
Total asset-backed securities	**2,523**	4,554

Investment in asset-backed securities by risk weighting * (Table 9(g) – Basel II)

	30 September 2011	31 December 2010	**30 September 2011**	31 December 2010
	Accrued amount of exposure		Capital requirement for securitization exposure	
	NIS millions		NIS millions	
20%	**1,021**	502	**18**	9
50%	**79**	110	**4**	5
100%	**46**	111	**4**	10
350%	**-**	-	**-**	-
Deducted from equity	**52**	214	**-**	-
Total	**1,198**	937	**26**	24

* Not including GNMA, FNMA, FHLMC securities, which are presented as liability of the U.S. government.

The Group's portfolio of available-for-sale investments in foreign asset-backed securities as of 30 September 2011 includes investments in mortgage-backed securities in the total amount of some NIS 1.7 billion. 73% of the mortgage-backed securities in the available-for-sale portfolio are guaranteed or directly issued by United States federal agencies (FNMA, FHLMC, GNMA) FNMA and FHLMC have come under governmental protection under the U.S. administration's rescue plan and the GNMA debentures have government guarantees. Most of the asset-backed bonds are rated 'AAA'. As at 30 September 2011, the accumulated net increase in value charged to capital resulting from the mortgage-backed securities portfolio was some NIS 10 million.

The total of the mortgage-backed securities that are not (U.S.) government guaranteed and are not backed by American federal entities in both the available-for-sale and trading portfolios, amounts to some NIS 467 million.

The forecast term to maturity for all the mortgage-backed securities portfolio is, on average, some 3.5 years.

In addition to the mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities that are backed by assets other than mortgages (car financing credit and other types of credit), amounting to some NIS 744 million, of which CLO-type debentures account for some NIS 679 million. The projected term to maturity of the portfolio of securities backed by assets other than mortgages is some 3 years on average.

2. Investments in other (non asset-backed) securities issued abroad

The Group's securities portfolio as of 30 September 2011 includes some NIS 13.7 billion (some US$ 3.7 billion) of non-asset-backed securities, which include mainly securities issued by banks and financial institutions, including subordinated debentures, the balance being mainly securities issued by the Government of Israel. Of these securities, NIS 12.9 billion (US$ 3.5 billion) are classified in the available-for-sale portfolio, and some NIS 0.8 billion in the securities for trading portfolio. Of these securities, 83% are rated 'A-' and above, of which, some 5% are rated 'AAA".

For further details regarding exposure to overseas banks and financial institutions, see page 145.

The Bank estimates that the decline in the prices of these securities is mostly of a temporary nature, and most of the decline in value was therefore charged to capital. This is on the basis of criteria set out in note 1 to the 2010 Annual Report, Significant Accounting Policies, taking into account other parameters, such as, the involvement and back-up, including direct investment in capital, of governments and ensuring the solidity of these and other banks in their countries, and assessment of the market for the risk of failure of banks, as reflected in the process of credit derivatives (CDS) and the change in value after the balance sheet date, high credit rating and analyses of resistance in extreme scenarios.

As of 30 September 2011, the accumulated decrease in value charged to capital in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio amounted to NIS 457 million (NIS 299 million after tax).

The debentures that are not asset-backed securities and were issued abroad are mainly debentures issued by banks.

The Bank intends, and is able, to continue to hold these debentures until maturity or at least until the return of their value.

	Fair value		Capital reserve at the end of the third quarter
	30 September 2011	31 December 2010	
	NIS millions		
Total subordinated and available-for sale bank debentures issued abroad	**1,971**	1,796	(280)

In addition, the available-for-sale portfolio includes the portfolio of securities that are non-asset backed securities also in the trading portfolio. The trading portfolio includes mainly securities of banks and financial institutions and in 2010, also includes portfolios of securities under the management of external investment managers and security funds. All the securities in the trading portfolio are investment grade securities, and about 87.5% are rated 'A' and higher. The value of the trading portfolio which is non-asset backed as at 30 September 2011 amounted to some NIS 0.8 billion (US$ 0.2 billion). The difference between the fair value and the amortized cost, if any, is charged to the profit and loss statement.

Investments in debentures issued in Israel

Investments in debentures issued in Israel at 30 September 2011 amounted to NIS 20.1 billion, of which NIS 18.5 billion was in debentures issued by the Government of Israel, with the balance, NIS 1.6 billion, in corporate debentures. Some 65.2% of the investments in corporate debentures amounting, as of 30 September 2011, to NIS 1.0 billion are attributed to the available-for-sale portfolio, with the balance being in the trading portfolio.

Out of the total amount of NIS 1.0 billion in the corporate debenture portfolio in the available-for-sale portfolio, the positive capital reserve amounts to NIS 18 million, and the negative capital reserve amounts to NIS 47 million.

3. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,744 million as at 30 September 2011, of which some NIS 1,335 million was in quoted shares and some NIS 1,409 million in unquoted shares. Out of the total investment, NIS 2,391 million is classified as available-for-sale and NIS 353 million is classified in the trading portfolio.

The following table sets out the principal investments in shares and funds recorded in the securities item(1) (Table 13(B) Basel II):

	Bank's share on a consolidated basis in the paid-up capital giving the right to receive profits		Value of the investment in the consolidated balance sheet*		Capital adequacy retirements		Listed/ Not listed
	30 September 2011	31 December 2010	**30 September 2011**	31 December 2010	**30 September 2011**	31 December 2010	
	%		NIS millions				
Migdal Insurance and Financial Holdings Ltd.	**9.79**	9.80	**500**	744	**45**	67	Listed
Africa Israel Properties Ltd.	**2.2**	2.2	**18**	35	**2**	3	Listed
Super-Pharm (Israel) Ltd.**(2)	**-**	18.0	**-**	182	**-**	16	Not listed
Otzar Hityashvuth Hayehudim B.M.	**8.63**	8.62	**48**	85	**4**	8	Listed
Partner Communications Co. Ltd. (3)	**4.99**	4.96	**281**	553	**25**	50	Listed
Electra Consumer Products (1970) Ltd.	**8.98**	9.0	**65**	105	**6**	9	Listed
TSI Roads Limited Partnership	**17.82**	19.52	**307**	127	**28**	11	Not listed
Tower Semiconductor capital notes	-	-	**49**	49	**4**	4	Not listed
Visa International	-	-	**-**	35	**-**	3	Listed
CLS Bank	-	-	**21**	21	**2**	2	Not listed
Funds	-	-	**1,160**	861	**104**	77	755 not listed
Apax	-	-	**66**	60	**6**	5	Not listed
Other	-	-	**229**	279	**21**	27	185 not listed
Total (4)	-	-	**2,744**	3,136	**247**	282	

* The value of investment in the consolidated balance sheet is equal to the balance of the fair value of the investment.

(1) For details of non-banking investments presented on equity basis, see page 107.
(2) Transferred to companies included on equity basis.
(3) On 30 September 2011, an impairment of NIS 239 million was recorded.
(4) From 30 September 2011 to 21 November 2011, the fair value of investments in quoted shares increased by NIS 17 million.

Partner Communications Co. Ltd.

The Bank has decided to effect a write-down in the statement of profit and loss in respect of a decline in value of the shares in Partner Communications Co. Ltd. (hereinafter: "Partner") owned by Leumi Partners Ltd. (hereinafter: "Leumi Partners"). The write-down is derived from the difference between the market price as at 30 September 2011 and the nominal purchase price (not adjusted for a dividend) of the shares amounting to NIS 239 million. The said write-down is being effected in accordance with Leumi Group's accounting policy, which requires the write-down as aforesaid, in a situation in which there is a significant and persistent decline in value.

Since the date of investment in Partner, which took place in October 2009, Leumi Partners has received amounts connected to the transaction, including dividends and commissions, aggregating some NIS 180.4 million.

TSI Roads Limited Partnership

On 31 December 2010, Leumi Partners Ltd. completed a transaction to invest (as a limited partner) in a limited partnership, TSI Roads Limited Partnership ("the Partnership"), which acquired 50% in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") (the franchisee of the toll road project known as Trans-Israel Highway (Route 6)). Leumi Partners' abovementioned investment amounted to some NIS 127 million, and Leumi Partners also committed to invest additional funds if and when the bank guarantees provided to the State in connection with the franchise agreement for Route 6 ("the commitment for the guarantees") are exercised.

At the beginning of August 2011, Israel Infrastructures Fund II (IIF 2011), a limited partnership consisting of all the partners of the Partnership (except for Israel Infrastructure Fund) purchased NIS 50 million worth of rights, and Leumi Partners thus holds 17.82% of the rights in the partnership after this purchase, and Leumi Partners' Commitment for the Guarantees amounts to some NIS 62 million.

In addition, on 10 August 2011, Leumi Partners signed an agreement for an additional investment in the partnership ("the additional investment"). The additional investment is intended to enable the partnership to invest in Derech Eretz for the purpose of exercising the right of refusal by Derech Eretz vis-à-vis the State to purchase profit participation certificates, subordinate debt participation certificates and mezzanine debt participation certificates that the State was entitled to allocate by virtue of an options agreement with Derech Eretz by virtue of an option agreement between it and Derech Eretz. On 14 August 2011, Derech Eretz informed the State for its part that it would be exercising the right of first refusal, and the State notified Derech Eretz that the notice of exercise of right of first refusal does not comply with the terms of the notice of proposal, the options agreement with the State and with the provisions of the law. This topic was passed for discussion in arbitration between Derech Eretz, the State of Israel and the entity declared as the winner by the State, and on 10 October 2011, a ruling was made by the arbitrator rejecting Derech Eretz's claim and approving the State's notice on the rejection of the exercise of the right of refusal granted by Derech Eretz.

As a result of the arbitrator's ruling, State's participation certificates were sold to an entity which was declared as the winner and the holding of the partnership in Derech Eretz were diluted to 25.5%. On 13 September 2011, the partnership signed an agreement with Shikun U'binui Ltd. for the purchase of the entire holdings of Shikun U'binui in Derech Eretz (25.5%). The agreement was contingent on conditions precedent, including the approval of the State and the approval of the senior lenders to Derech Eretz, which had not yet been fulfilled. The Board of Directors of the Bank has approved a further investment by Leumi Partners in the partnership amounting to NIS 132 million, with the addition of NIS 70 million in respect of guarantees, in order to purchase the holdings of Shikun U'binui.

The following table shows investments (positions) in shares and funds in the securities item (available-for-sale portfolio and trading portfolio) (NIS millions):

	Balance sheet amount	
	30 September 2011	31 December 2010
Quoted shares	**1,335**	1,847
Funds according to quote by counterparty	**842**	714
Unquoted shares	**567**	575
Total	**2,744**	3,136

Other assets and debit balances in respect of derivative instruments

As of 30 September 2011, other assets amounted to NIS 3.7 billion, compared with NIS 2.6 billion at the end of 2010, an increase of 41.3%. The increase resulted mainly from an increase in net deferred tax receivable amounting to NIS 0.8 billion.

The balance of the fair value of derivative instruments carried out with and for customers, increased from NIS 8.7 billion on 31 December 2010 to NIS 11.5 billion at 30 September 2011, with a concurrent increase in liabilities in respect of derivative instruments from NIS 10 billion to NIS 12.6 billion.

Operating Segments in the Group

The Group operates in various operating segments through the Bank and its subsidiaries, in all fields of banking and financial services. Furthermore, the Group invests in non-banking corporations that operate in various fields, including insurance, real estate, shipping, energy, industry and others.

The operating segments are defined in accordance with the characteristics determined by the Bank of Israel. A detailed description of the operating segments and the manner of their measurement is provided in the Annual Report for 2010.

Following are principal data according to operating segments of the principal balance sheet items as at 30 September 2011:

	Credit to the Public			Deposits of the Public			Total Assets		
	30 September 2011	31 December 2010	Change	**30 September 2011**	31 December 2010	Change	**30 September 2011**	31 December 2010	Change
	NIS millions		%	NIS millions		%	NIS millions		**%**
Households[1]	**81,579**	76,341	6.9	**126,558**	118,266	7.0	**82,382**	76,928	7.1
Small businesses	**19,604**	19,018	3.1	**18,971**	16,579	14.4	**19,638**	19,039	3.1
Corporate banking	**76,507**	73,163	4.6	**28,377**	26,281	8.0	**80,393**	75,108	7.0
Commercial banking	**50,108**	47,226	6.1	**43,363**	36,421	19.1	**51,704**	49,316	4.8
Private banking	**8,171**	7,738	5.6	**35.815**	36,241	(1.2)	**10,913**	10,618	2.8
Financial management - capital markets and other	**1,346**	495	171.9	**14.165**	15,796	(10.3)	**108,145**	97,313	11.3
Total	**237,315**	223,981	6.0	**267,249**	249,584	7.1	**353,175**	328,322	7.6

(1) Credit to households also includes housing loans (mortgages). After canceling the effect of this credit, credit (banking and financial) to households increased by 4.5%. Housing loans amounted to NIS 55,095 million at the end of September 2011, having increased by 8.0%. The rates of increase in credit (banking and financial) for 2010 were 5.4%.

Following are principal data according to operating segments of off-balance sheet items and data on customer balances in the capital market:

	Guarantees and Documentary Credit			Securities Portfolios, including Mutual Funds		
	30 September 2011	31 December 2010	Change	**30 September 2011**	31 December 2010	Change
Segment	NIS millions		%	NIS millions		%
Households	**468**	519	**(9.8)**	**87,685**	96,212	**(8.9)**
Small businesses	**1,377**	1,307	**5.4**	**6,871**	9,404	**(26.9)**
Corporate banking	**27,005**	24,114	**12.0**	**73,027**	94,234	**(22.5)**
Commercial banking	**6,600**	6,789	**(2.8)**	**46,310**	45,615	**1.5**
Private banking	**513**	482	**6.4**	**70,676**	75,201	**(6.0)**
Financial management – capital markets and other	**774**	757	**2.2**	**178,653**	174,658	**2.3**
Total	**36,737**	33,968	**8.2**	**463,222**	495,324	**(6.5)**

The following table sets out the net operating profit according to operating segments:

	For the three months ended			For the nine months ended		
	30 September 2011	30 September 2010	Change	**30 September 2011**	30 September 2010	Change
Segment	NIS millions		%	NIS millions		%
Households	**145**	64	126.6	**339**	159	113.2
Small businesses	**87**	70	24.3	**271**	196	38.3
Corporate banking	**123**	343	(64.1)	**645**	862	(25.2)
Commercial banking	**105**	53	98.1	**339**	261	29.9
Private banking	**33**	22	50.0	**138**	74	86.5
Financial management – capital markets and other	*** (338)**	54	-	**(459)**	286	-
Total	**155**	606	(74.4)	**1,273**	1,838	(30.7)

Explanations for the changes in profitability are provided below.

* Including a net expense of NIS 322 million in respect of severance pay and pension.

Return on equity according to operating segments

In accordance with directives of the Bank of Israel, it was decided to calculate the return on equity to be allocated to each of the operating segments.

The equity for the purpose of calculating the capital to risk assets ratio (Tier 1 and Tier 2 capital) was allocated to the segments according to the relative share of each segment in the total of all the weighted risk assets of the Group, and according to the allocation of Pillar 2 equity for each segment according to its characteristics and its components.

The profit of operating segments was adjusted for the risk capital in each segment. The return on risk-adjusted capital was calculated as the ratio of the adjusted profit to equity allocated to the segment, which represents a part of the allocated risk capital (Tier 1 and Tier 2).

The following table sets out the net profit return, adjusted for risk, on Tier 1 equity by operating segment calculated as described above:

	Return on capital in % of net operating profit		
Segment	**30 September 2011**	30 September 2010	31 December 2010
Households	**10.9**	5.6	4.4
Small businesses	**27.0**	20.6	18.9
Corporate banking	**10.7**	14.0	14.3
Commercial banking	**11.9**	9.5	8.1
Private banking	**23.6**	14.7	12.6
Financial management – capital markets and other	**(12.6)**	2.9	1.1
Other	**(25.0)**	3.3	14.8
Total	**7.5**	9.9	9.5

Below is the return on risk-adjusted capital (RORAC) and the economic value added (EVA) for the Bank taking into account the cost of capital according to the multi-year return determined in the work plan, by operating segment:

The figures for EVA and RORAC have been calculated according to the allocation of all of the capital of the Bank between the segments (as per the actual capital adequacy pursuant to Basel II.

	As at 30 September 2011		As at 31 December 2010	
	Allocating all the capital		Allocating all the capital	
	RORAC	EVA	RORAC	EVA
Segment	%	NIS millions	%	NIS millions
Households	**10.9**	**28**	4.4	(226)
Small businesses	**27.0**	**169**	18.9	120
Corporate banking	**10.7**	**41**	14.3	361
Commercial banking	**11.9**	**54**	8.1	(70)
Private banking	**23.6**	**79**	12.6	18
Financial management – capital markets	**(12.6)**	**(693)**	5.6	(172)
Other	**(24.3)**	**(96)**	15.9	36
Total for net profit	**7.5**	**(418)**	10.3	67

The following table shows the quarterly development of the net operating profit by operating segment:

Segment	2011	2010					
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Households	**145**	84	110	18	64	63	32
Small businesses	**87**	88	96	60	70	54	72
Corporate banking	**123**	185	337	336	343	289	230
Commercial banking	**105**	87	147	43	53	96	112
Private banking	**33**	45	60	13	22	22	30
Financial management – capital markets	**(337)**	72	(196)	29	54	(17)	63
Total	**156**	561	554	499	606	507	539

1. Households

The following tables set out a summary of the profit and loss of the Households segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the three months ending 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	**(216)**	**62**	**2**	**669**	**(2)**	**2**	**517**
Intersegmental	**740**	**(15)**	**(1)**	**(558)**	**5**	**(1)**	**170**
Operating and other income:							
From external sources	**144**	**130**	**117**	**28**	**1**	**-**	**420**
Intersegmental	**1**	**53**	**-**	**4**	**-**	**-**	**58**
Total income	**669**	**230**	**118**	**143**	**4**	**1**	**1,165**
Expenses in respect of credit losses	**22**	**6**	**-**	**2**	**1**	**2**	**33**
Operating and other expenses:							
To external sources	**598**	**153**	**74**	**64**	**4**	**1**	**894**
Intersegmental	**1**	**(1)**	**-**	**5**	**-**	**-**	**5**
Operating profit (loss) before taxes	**48**	**72**	**44**	**72**	**(1)**	**(2)**	**233**
Provision for taxes on operating profit	**19**	**21**	**15**	**26**	**-**	**-**	**81**
Operating profit (loss) after taxes	**29**	**51**	**29**	**46**	**(1)**	**(2)**	**152**
Operating profit attributable to non-controlling interests	**-**	**(7)**	**-**	**-**	**-**	**-**	**(7)**
Net profit (loss)	**29**	**44**	**29**	**46**	**(1)**	**(2)**	**145**

	Banking and finance	Credit cards	Capital market	Mortgages	Activity abroad	Total
	For the three months ending 30 September 2010					
	NIS millions					
Net interest income:						
From external sources	(197)	47	1	510	1	362
Intersegmental	614	(5)	(1)	(391)	4	221
Operating and other income:						
From external sources	147	117	128	32	1	425
Intersegmental	-	57	-	5	-	62
Total income	564	216	128	156	6	1,070
Expenses in respect of credit losses	48	5	-	(7)	-	46
Operating and other expenses:						
To external sources	641	140	55	63	7	906
Intersegmental	3	(1)	-	5	-	7
Operating profit (loss) before taxes	(128)	72	73	95	(1)	111
Provision for taxes (benefit) on operating profit	(46)	21	26	38	-	39
Operating profit (loss) after taxes	(82)	51	47	57	(1)	72
Operating profit attributable to non-controlling interests	-	(8)	-	-	-	(8)
Net profit (loss)	(82)	43	47	57	(1)	64

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity Banking and finance	Overseas activity Mortgages	Total
	For the nine months ending 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	**(667)**	**173**	**5**	**1,837**	**(4)**	**7**	**1,351**
Intersegmental	**2,108**	**(37)**	**(3)**	**(1,485)**	**14**	**(2)**	**595**
Operating and other income:							
From external sources	**435**	**366**	**385**	**83**	**4**	**-**	**1,273**
Intersegmental	**1**	**155**	**-**	**13**	**-**	**-**	**169**
Total income	**1,877**	**657**	**387**	**448**	**14**	**5**	**3,388**
Expenses in respect of credit losses	**20**	**17**	**-**	**(14)**	**1**	**4**	**28**
Operating and other expenses:							
To external sources	**1,890**	**454**	**241**	**197**	**13**	**4**	**2,799**
Intersegmental	**5**	**(3)**	**-**	**15**	**-**	**-**	**17**
Operating profit (loss) before taxes	**(38)**	**189**	**146**	**250**	**-**	**(3)**	**544**
Provision for taxes (benefit) on operating profit	**(8)**	**54**	**50**	**88**	**-**	**-**	**184**
Operating profit (loss) after taxes	**(30)**	**135**	**96**	**162**	**-**	**(3)**	**360**
Operating profit attributable to non-controlling interests	**-**	**(21)**	**-**	**-**	**-**	**-**	**(21)**
Net profit (loss)	**(30)**	**114**	**96**	**162**	**-**	**(3)**	**339**
% Return on equity							**10.9%**
Average balance of assets	**18,411**	**7,389**	**123**	**53,378**	**115**	**150**	**79,566**
of which: investments in companies included on equity basis	**-**	**6**	**-**	**-**	**-**	**-**	**6**
Average balance of liabilities	**115,227**	**960**	**-**	**9,375**	**841**	**8**	**126,411**
Average balance of risk assets	**20,746**	**7,310**	**122**	**28,092**	**292**	**53**	**56,615**
Average balance of mutual fund and supplementary training fund assets	**-**	**-**	**53,992**	**-**	**-**	**-**	**53,992**
Average balance of securities	**-**	**-**	**51,234**	**-**	**163**	**-**	**51,397**
Average balance of other assets under management	**259**	**-**	**-**	**5,735**	**-**	**-**	**5,994**
Balance of credit to the public	**18,559**	**7,536**	**127**	**55,095**	**111**	**151**	**81,579**
Balance of deposits of the public	**120,725**	**44**	**-**	**4,925**	**855**	**9**	**126,558**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Activity abroad	Total
	For the nine months ending 30 September 2010					
	NIS millions					
Net interest income:						
From external sources	(240)	134	3	1,167	2	1,066
Intersegmental	1,445	(15)	(2)	(876)	11	563
Operating and other income:						
From external sources	448	344	396	94	4	1,286
Intersegmental	(1)	166	-	15	-	180
Total income	1,652	629	397	400	17	3,095
Expenses in respect of credit losses	108	15	-	(26)	6	103
Operating and other expenses:						
To external sources	1,896	416	184	183	19	2,698
Intersegmental	5	(3)	-	17	-	19
Operating profit (loss) before taxes	(357)	201	213	226	(8)	275
Provision for taxes (benefit) on operating profit	(125)	58	76	85	-	94
Operating profit (loss) after taxes	(232)	143	137	141	(8)	181
Minority interests' share in profits of consolidated companies	-	(22)	-	-	-	(22)
Net profit (loss)	(232)	121	137	141	(8)	159
% Return on equity						5.6%
Average balance of assets	16,426	6,878	104	46,864	294	70,566
of which: investments in companies included on equity basis	-	8	-	-	-	8
Average balance of liabilities	111,562	900	-	10,226	941	123,629
Average balance of risk assets	20,321	6,777	102	24,292	354	51,846
Average balance of mutual fund and supplementary training fund assets	-	-	47,854	-	-	47,854
Average balance of securities	-	-	49,803	-	156	49,959
Average balance of other assets under management	140	-	-	6,543	-	6,683
Balance of credit to the public at 31 December 2010	17,717	7,247	123	51,002	252	76,341
Balance of deposits of the public at 31 December 2010	111,989	27	-	5,378	872	118,266

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 5.2 billion, or 6.9% compared with the end of 2010. Housing loans increased by 8.0%, and credit, after cancelling out the effect of housing loans, increased by 4.5%. Deposits of the public amounted to some NIS 126.5 billion, an increase of 7.0% compared with the end of 2010.

Main Changes in Net Profit

In the first nine months of 2011, net profit in the households segment amounted to NIS 339 million, compared with NIS 159 million in the corresponding period last year, an increase of NIS 180 million or 113.2%. The increase in profit derives from an increase in income of NIS 293 million or 9.5% due to a decrease in expenses in respect of credit losses amounting to NIS 75 million, which was partially offset by an increase in operating expenses of NIS 99 million or 3.6%.

The return on equity of the net profit was 10.9%.

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group up to the end of September 2011, including advanced training funds in respect of which counseling was provided in the framework of pension counseling and/or investment advice, amounted to some NIS 14.1 billion.

Data relating to the risk features of housing loans ** granted by Leumi Mortgage Bank

Pursuant to a letter of the Bank of Israel dated 15 May 2011, the Bank is required to include in the Report of the Board of Directors disclosure regarding developments in credit risks in the housing loan portfolio as defined in Proper Conduct of Banking Management Directive of the Bank of Israel No. 451 (hereinafter: "housing loans"), and the activity carried out in order to manage these risks.

The data relating to the risk features of the housing loans, pursuant to the aforementioned Bank of Israel letter, developments on credit risks and the way of managing them, including reference to measures adopted by Leumi Mortgage to deal with these risk features, are as follows:

* Data for 31 December 2010 in the tables below are stated after applying the directives of the Supervisor of Banks' Directives - Measurement and Disclosure of Impaired Debts.

** The definitions mentioned in the disclosure above (e.g., repayment ratio, rate of financing, etc.) are in accordance with the Bank's reporting to the Bank of Israel.

The following table presents data concerning new loans granted and loans refinanced for the purchase of a residential dwelling and for the pledge of a residential dwelling (Leumi Mortgage Bank and Leumi):

	First nine months of 2011	First nine months of 2010	Change
	NIS millions		%
From Bank funds	**9,340**	10,886	(14.2)
From Ministry of Finance funds:			
Loans	**12**	28	(57.1)
Standing loans	**2**	3	(33.3)
Total new loans	**9,354**	10,917	(14.3)
Refinanced loans	**902**	928	(2.8)
Total	**10,256**	11,845	(13.4)

Development of balance of housing loan portfolio after deduction of allowance for credit losses

	Balance of credit portfolio	Annual rate of increase
	NIS millions	%
December 2008	39,344	
December 2009	42,734	8.6
December 2010	49,319 *	15.4
September 2011	**53,548**	**8.6**

The balance of the housing credit portfolio as at 30 September 2011 is NIS 53,548 million, an increase of 8.6%, compared with the balance of the portfolio as at 31 December 2010. The increase in the level of housing credit in recent years is attributable to demand for housing units and an increase in the prices of housing units, with the majority constituting credit for the purchase of residential dwellings.

Development of credit portfolio according to linkage basis:

	Unlinked	Percentage of credit portfolio	Index-linked	Percentage of credit portfolio	Foreign currency	Percentage of credit portfolio	Total portfolio
	NIS millions	%	NIS millions	%	NIS millions	%	NIS millions
December 2009	15,585	36.5	26,114	61.1	1,035	2.4	42,734
December 2010 *	21,552	43.7	26,619	54.0	1,148	2.3	49,319
September 2011	**23,038**	**43.0**	**28,926**	**54.0**	**1,584**	**3.0**	**53,548**

As indicated by the above table, the proportion of unlinked credit increased in 2009 by 36.5% to 43.0% at the end of the third quarter of 2011, as a result of an increase of some 47.8% from 2009 to the end of the third quarter of 2011, on account of a reduction in the proportion of the index-linked credit. However, in the third quarter of 2011, the increase in the balance of the unlinked credit portfolio slowed down, in light of a directive of Supervisor of Banks relating to the extension of loans at variable interest, including loans based on Prime.

Development of credit portfolio at variable and fixed interest:

	Fixed		Variable			Total credit portfolio
	Unlinked	Index-linked	Unlinked	Index-linked	Foreign currency	
	NIS millions					
December 2010 *	766	11,309	20,786	15,310	1,148	49,319
September 2011	**922**	**11,570**	**22,116**	**17,356**	**1,584**	**53,548**

The low shekel interest environment in the economy in the said years, 2010-2011, led to an increase in the proportion of unlinked loans in particular, as well as in variable interest loans, mainly in unlinked loans based on Prime.

Development of the housing credit by type of interest:

The development of the new credit extended by variable and fixed interest is as follows (a variable interest loan is loan where the interest is not likely to change over the life of the loan):

	2011			2010				2009
	3rd quarter	2nd quarter	1st quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	Annual average
	Percentage of loans extended							
	%							
Fixed – linked	**14.6**	5.9	6.1	7.1	6.9	5.6	7.1	6.5
Variable – index-linked (5 years or more)	**42.5**	17.5	8.9	12.0	13.1	10.7	10.3	4.5
Fixed-un linked	**5.4**	2.1	2.8	3.0	5.0	2.7	6.0	1.2
Variable – index-linked (up to 5 years)	**9.4**	19.2	15.3	15.3	15.4	15.9	11.6	15.0
Variable – unlinked	**25.0**	48.8	61.6	60.1	56.7	61.9	61.2	70.5
Variable – foreign currency	**3.1**	6.5	5.3	2.5	2.9	3.2	3.8	2.3

The percentage of new credit extended by Leumi Mortgages in housing loans at variable interest in the first nine months of 2011 was 88% similar to the corresponding period last year. The data relate to all types of variable interest and the different linkage segments, including loans in which the interest is variable each period of five years and more. After canceling the effect of index-linked variable interest which varied each period of five years or more, which the Supervisor's directive excludes from the definition of variable interest loans, 66% were extended in the first nine months of 2011, compared with 77% in the corresponding period last year.

The balance of the portfolio of housing loans in arrears more than 90 days is as follows:

	Balance of debt	Problem debt	Percentage of problem debt
	NIS millions		%
December 2008	40,024	1,587	4.0
December 2009	43,317	1,306	3.0
December 2010	49,911	1,046	2.1
September 2011	**54,085**	**926**	**1.7**

The allowance for credit losses as at 30 September 2011, which includes the group allowance for housing loans (hereinafter "the overall allowance"), as required by a letter from the Bank of Israel dated 1 May 2011 is NIS 537 million, representing 0.99% of the housing balance, compared with the same allowance as at 1 January 2011, amounting to NIS 592 million, or 1.19% of the housing credit balance. The decrease in the allowance for credit losses is attributable to the decrease in the balance of arrears in the credit portfolio of Leumi Mortgage Bank and results from the improvement in economic indicators.

Data relating to new housing credit:

During the first nine months of 2011, Leumi Mortgage extended new credit amounting to NIS 8,638 million from the Bank's own funds.

Development of rate of financing, in new credit, above 60%:

The table below presents the development of the new credit extended by Leumi Mortgage Bank at a rate of a financing higher than 60%, (the rate of financing is the ratio between the rate of credit approved for the borrower (even if all or part thereof has not yet been actually extended) and the value of the mortgaged asset, when extending the credit facility.

	2011	2010						2009
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Average
	%							
From 60 to 69	**24.0**	20.9	21.7	21.5	21.6	28.7	30.1	32.3
From 70 to 79	**11.2**	10.4	15.3	18.8	18.1	22.3	19.3	14.8
Above 80	**3.3**	3.6	3.0	2.8	3.7	3.5	2.6	2.0

Development of rate of financing, balance of credit portfolio:

The average rate of finance of the credit portfolio balance as at 30 September 2011 is 51.9%.

Development of new credit, where the repayment ratio is less than 2:

The rate of the new housing loan credit in the third quarter of 2011 in which the minimum repayment ratio was lower than 2 for income earners earning NIS 10,000 or less at the date of approving the credit stood at 2% of the total new credit extended, similar to the first half of 2011 and 2% in 2010. (The repayment ratio is calculated as follows: the fixed monthly income of the borrower divided by total monthly repayments in respect of the existing mortgage loans and the new loan).

This calculation complies with the Bank of Israel regulations for reporting to the Supervisor of Banks pursuant to Directive 876.

Development of new credit, in which the maturity dates are longer than 25 years:

The rate of new housing loan credit in the third quarter of 2011, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at 33.84% of total new credit extended, compared with an average of 37% in 2010. The curtailment of the duration of the loans derives partly from a change in the Bank's credit policy, which included a significant reduction in the extension of loans for a period exceeding 25 years.

As a general rule, Leumi Mortgage does not extend new loans whose terms allow the borrower to pay back less than the interest accruing on the loan, except in exceptional cases.

Leumi Mortgage does not extend loans secured by a second charge, except in exceptional cases.

According to Leumi Mortgage's credit policy, Leumi Mortgage extends new loans where information regarding the borrower, or regarding the collateral, at the date of granting the loan, is complete, updated, and verified.

Development of Credit Risk

In recent years, against a backdrop of rising demand for housing, both for residential purposes and for investment, there has been a marked increase in housing prices, leading to a substantial increase in the extent of housing credit. Against the backdrop of this increase in prices, the risk inherent in extending loans at high rates of financing has increased, stemming from the high burden of debt on the borrower, and higher exposure when the security becomes impaired.

In addition, the low interest rates that have prevailed in the economy in recent years, mainly unlinked Prime interest, have led to a sharp increase in the proportion of unlinked variable interest loans out of total credit to the public in the mortgage market. As a consequence, in an environment of increasing interest rates, borrowers are exposed to a sharp rise in the level of mortgage payments.

The sharp increase in apartment prices, in housing credit, the increase in the extent of loans taken, and the increase in the proportion of variable interest credit – are trends that increase the risk inherent in Leumi Mortgage Bank's credit portfolio. The average mortgage extended by Leumi Mortgage Bank in 2009 was NIS 596 thousand, while the average mortgage in 2010 was NIS 665 thousand, and in the first nine months of 2011, was NIS 536 thousand.

It appears that, until now, the quality of Leumi Mortgage Bank's portfolio has been good, based on data on the extent of debt in arrears, the rate of allowances for credit losses, and the percentage of problem debt in Leumi Mortgage Bank's credit portfolio, as well as a very low rate of losses in the realization of assets.

Contending with developments in credit risk

The management of credit risk by Leumi Mortgage is anchored in a credit policy document and backed up by various working procedures, including underwriting procedures. The credit policy defines the Bank's goals, taking into account a macroeconomic forecast and capital adequacy ratios, including risk appetite. The policy and procedures encompass the method of examining applications for credit and the principal factors taken into consideration when giving approval to a credit facility, credit authorities, and the requirements for allocating appropriate collateral to each type of request.

Leumi Mortgage examines and makes changes to credit policy in accordance with changes occurring in the business and regulatory environment.

Credit risks are managed on a day-to-day basis in accordance with the principles of credit policy. A process for upgrading the quality of risk management takes place on a routine basis, and a tightening of control on credit is carried out where the level of risk has increased. In view of the complexity of the issues and the variable environment, a number of measures were taken, as detailed below, in order to reduce exposure to the Leumi Mortgage's credit risks, including the definition of stricter administrative restrictions and the allocation of capital cushions in respect of the Second Pillar of the Basel II directives, in respect of high-risk features.

The main measures adopted by Leumi Mortgage Bank for managing credit risk are as follows:

a. Management structure and authorities:

The Credit Risk Manager of Leumi Mortgage is responsible for designing the Leumi Mortgage's credit policy and for coordinating and supervising this policy. Under the responsibility of the Credit Risk Manager, management and control of credit risks are performed, as well as policy and procedure updates, analytical work, development and validation of models and controlling the granting and management of credit.

The Credit Risk Management Unit carries out monitoring at the frequency provided in the policy document. In addition, once a year it reports to the Risk Management Committees of Management and the Board of Directors. Every new risk or new product is submitted for approval by all the risk managers, with tools to minimize the risks defined also in the credit policy document.

Leumi Mortgage has a Credit Review Unit whose main activity is to assess the quality of exceptional populations of customers and the quality of the overall credit portfolio. In addition, the Unit monitors unusual data in the Bank relating to the amount of debits returned and arrears in new loans, and draws the necessary conclusions.

Leumi Mortgage operates a system of authorities for determining customer credit facilities. This system provides an effective solution for the needs of customers according to the 3 levels of main decision-makers: personal authority, credit committees of both management and the Board of Directors of Leumi Mortgage, and the plenum of the Board of Directors. The appropriate authority for the approval of every credit portfolio is determined, *inter alia*, by the following criteria: the risk rating of the borrower according to an internal statistical model, the extent of the credit facility requested, and the percentage of financing requested.

b. Principles in the management of credit risks with the customer:

Credit applications are examined according to transaction type and characteristics, for example: the purchase of a dwelling by persons upgrading their housing, purchase by young couples, loans under an existing pledge of an asset, purchase of land, private construction, etc.

In every credit application, an examination is made, *inter alia*, of the repayment capacity of the potential borrower vis-à-vis the amount of the monthly repayment that has to be met.

In every credit application, the borrower's credit rating is checked on the basis of a statistical model indicating the risk profile of the borrower.

Leumi Mortgage extends credit against the pledge of real-estate collateral, with the pledge being received prior to the granting of the credit.

In addition, Leumi Mortgage examines, *inter alia*, the rate of financing in the request according to the principles of credit policy.

Leumi Mortgage has procedures which define how the pledge received is registered, as a function of the type of transaction and the method of recording the asset (*Tabu*, Israel Land Administration) and ensures that the customer has purchased appropriate insurance for purposes of reducing credit risk – life assurance and/or asset insurance.

c. Tools for controlling credit risk

Leumi Mortgage has a number of control teams that examine the required credit documentation and collateral, both before and after making the loan.

Leumi Mortgage has a chart of credit risks and controls, which describes the risks and the measures the Bank takes in order to reduce borrower and collateral risk, and minimize exposure.

As an integral part of the activity of the Credit Risk Management Unit, statistical models are constructed and reinforced for rating credit extended to the customer on making the request, and models for examining the credit portfolio held. The unit independently and methodically monitors and controls customer risk ratings.

Sensitivity tests, scenarios and stress scenarios are performed on the quantitative results of the risks that are measured. Stress scenarios are based on macroeconomic risk factors and internal factors, such as: percentage of financing, repayment ratio, changes in unemployment rate, impairment of asset value, geographical area, etc. The scenarios assist the Bank, *inter alia*, in setting credit targets in the annual work-plan, in quantifying the risk inherent in a new activity/product that is about to be launched, and formulating capital buffers within the framework of the Second Pillar.

Leumi Mortgage has management reports for the purpose of managing exposure and credit risk, including the quality of borrowers' credit ratings, and for performing sensitivity analysis and stress scenarios, and as part of operating credit processes, checks are made on the completeness, reliability and quality of the information.

Control at Group level – In the context of the Risk Management Division of Leumi, there are functions for credit risk management control and control of models and methodology for the measurement of credit risk. The Risk Management Division of Leumi operates, *inter alia*, to assist in assessing the adequacy of the models implemented in Leumi Mortgage for measuring risk and in developing methodology for the quantitative measurement of credit risks in Leumi Mortgage.

The following steps have been taken:

As a result of economic developments occurring in the economy in recent years, as presented above, Leumi Mortgage adopted a number of measures in order to contend with the increase in the abovementioned credit risks:

As part of the Bank's risk management, it was decided to tighten administrative restrictions for the following characteristics: high rates of financing, current monthly repayment capacity, credit ratings in accordance with the Bank's internal statistical model, loan products/paths, types of interest and the amounts of loans.

When approving the credit application, the repayment capacity is examined for borrowers taking an unlinked variable interest loan, according to a rate of interest higher than the current rate, in order to ensure that the borrower will meet loan repayments even if there is an increase in interest rates.

Leumi Mortgage has examined, as part of a stress scenario, the effect of impairment in collateral and an increase in interest rates, on losses of Leumi Mortgage.

As a part of the capital planning process and its goals, Leumi Mortgage retains additional "capital buffers" to contend with higher risk characteristics, such as: a capital buffer in respect of loans at high rates of financing, a capital buffer in respect of the gap between the current rate of allowances for credit losses and the average rate over the economic cycle, and a capital buffer in respect of the possibility of a fall in real estate prices.

It should be noted that as of 5 May 2011, Leumi Mortgage is acting in accordance with a letter from the Supervisor of Banks dated 3 May 2011, according to which Leumi Mortgage will be able to approve housing loans, providing that the variable interest component does not exceed 33.3% (a variable interest loan is loan in which the interest varies over a period of up to 5 years).

In addition and at the request of the Supervisor of Banks, a group allowance for credit losses was made as at 30 September 2011 in excess of provisions according to the extent of arrears as required in the Proper Conduct of Banking Management of the Bank of Israel Directive No. 314.

2. Small Businesses

The following tables set out a summary of the profit and loss in the Small Businesses segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ending 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	**186**	**7**	**-**	**1**	**85**	**7**	**1**	**287**
Intersegmental	**(9)**	**(2)**	**(1)**	**(1)**	**(31)**	**(2)**	**-**	**(46)**
Operating and other income:								
From external sources	**77**	**26**	**5**	**-**	**14**	**2**	**1**	**125**
Intersegmental	**-**	**(14)**	**-**	**-**	**-**	**-**	**-**	**(14)**
Total income	**254**	**17**	**4**	**-**	**68**	**7**	**2**	**352**
Expenses in respect of credit losse	**19**	**-**	**-**	**-**	**5**	**(4)**	**2**	**22**
Operating and other expenses:								
To external sources	**148**	**13**	**3**	**-**	**28**	**6**	**1**	**199**
Intersegmental	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Operating profit (loss) before taxes	**87**	**3**	**1**	**-**	**35**	**5**	**(1)**	**130**
Provision for taxes (benefit) on operating profit	**29**	**2**	**-**	**-**	**12**	**(1)**	**-**	**42**
Operating profit (loss) after taxes	**58**	**1**	**1**	**-**	**23**	**6**	**(1)**	**88**
Operating profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**58**	**-**	**1**	**-**	**23**	**6**	**(1)**	**87**

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ending 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	218	6	-	1	30	12	1	268
Intersegmental	(43)	(2)	-	(1)	9	(5)	-	(42)
Operating and other income:								
From external sources	76	27	6	-	11	2	1	123
Intersegmental	-	(15)	-	-	-	-	-	(15)
Total income	251	16	6	-	50	9	2	334
Expenses (income) in respect of credit losses	23	1	-	-	4	9	(1)	36
Operating and other expenses:								
To external sources	140	11	3	-	21	8	1	184
Intersegmental	(1)	1	-	-	-	-	-	-
Operating profit (loss) before taxes	89	3	3	-	25	(8)	2	114
Provision for taxes on operating profit	29	2	2	-	9	1	-	43
Operating profit (loss) after taxes	60	1	1	-	16	(9)	2	71
Minority interests in profits of consolidated companies	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	60	-	1	-	16	(9)	2	70

Small Businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the nine months ending 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	**572**	**18**	**1**	**4**	**237**	**25**	**2**	**859**
Intersegmental	**(62)**	**(4)**	**(1)**	**(3)**	**(81)**	**(5)**	**-**	**(156)**
Operating and other income:								
From external sources	**233**	**80**	**19**	**-**	**40**	**8**	**1**	**381**
Intersegmental	**-**	**(40)**	**-**	**-**	**-**	**-**	**-**	**(40)**
Total income	**743**	**54**	**19**	**1**	**196**	**28**	**3**	**1,044**
Expenses in respect of credit losses	**19**	**(1)**	**-**	**-**	**-**	**6**	**2**	**26**
Operating and other expenses:								
To external sources	**454**	**35**	**10**	**-**	**78**	**21**	**2**	**600**
Intersegmental	**1**	**2**	**-**	**-**	**-**	**-**	**-**	**3**
Operating profit (loss) before taxes	**269**	**18**	**9**	**1**	**118**	**1**	**(1)**	**415**
Provision for taxes (benefit) on operating profit	**93**	**6**	**3**	**-**	**41**	**(1)**	**-**	**142**
Operating profit (loss) after taxes	**176**	**12**	**6**	**1**	**77**	**2**	**(1)**	**273**
Operating profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit (loss)	**176**	**10**	**6**	**1**	**77**	**2**	**(1)**	**271**
% Return on equity								**27.0%**
Average balance of assets	**12,291**	**806**	**30**	**107**	**5,403**	**564**	**113**	**19,314**
Average balance of liabilities	**14,052**	**1,386**	**-**	**-**	**2,936**	**411**	**72**	**18,857**
Average balance of risk assets	**10,722**	**626**	**33**	**82**	**5,316**	**663**	**113**	**17,555**
Average balance of mutual fund and supplementary training fund assets	**-**	**-**	**2,238**	**-**	**-**	**-**	**-**	**2,238**
Average balance of securities	**-**	**-**	**5,899**	**-**	**-**	**4**	**-**	**5,903**
Average balance of other assets under management	**245**	**-**	**-**	**-**	**-**	**-**	**-**	**245**
Balance of credit to the public	**12,335**	**818**	**18**	**101**	**5,661**	**541**	**130**	**19,604**
Balance of deposits of the public	**15,409**	**-**	**-**	**-**	**3,070**	**427**	**65**	**18,971**

Small Businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the nine months ending 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	562	15	1	4	148	34	2	766
Intersegmental	(66)	(3)	-	(3)	(16)	(12)	-	(100)
Operating and other income:								
From external sources	220	76	19	-	33	8	1	357
Intersegmental	-	(43)	-	-	-	-	-	(43)
Total income	716	45	20	1	165	30	3	980
Expenses in respect of credit losses	55	2	-	-	13	17	(1)	86
Operating and other expenses:								
To external sources	448	32	7	-	70	23	2	582
Intersegmental	-	2	-	-	-	-	-	2
Operating profit (loss) before taxes	213	9	13	1	82	(10)	2	310
Provision for taxes on operating profit	75	4	5	-	29	-	-	113
Operating profit (loss) after taxes	138	5	8	1	53	(10)	2	197
Minority interests in profits of consolidated companies	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	138	4	8	1	53	(10)	2	196
% Return on equity								20.6%
Average balance of assets	11,144	774	26	133	4,774	650	115	17,616
Average balance of liabilities	12,394	1,401	-	-	2,137	433	80	16,445
Average balance of risk assets	10,185	581	29	114	4,846	786	115	16,656
Average balance of mutual fund and supplementary training fund assets	-	-	1,971	-	-	-	-	1,971
Average balance of securities	-	-	4,643	-	-	5	-	4,648
Average balance of other assets under management	308	-	-	-	-	-	-	308
Balance of credit to the public at 31 December 2010	12,171	778	42	114	5,238	572	103	19,018
Balance of deposits of the public at 31 December 2010	13,402	-	-	-	2,705	386	86	16,579

Small Businesses (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 586 million compared with the end of 2010, an increase of 3.1 %, and total deposits of the public increased by NIS 2.4 million, an increase of 14.4%.

Main Changes in the Net Profit

In the first nine months of 2011, net profit in the small businesses segment totaled NIS 271 million, compared with NIS 196 million in the corresponding period last year, an increase of 38.3%. The increase in profit derives from an increase in income of NIS 64 million, or 6.5%, and from a decrease in expenses in respect of credit losses in the amount of NIS 60 million.

The return on equity of the net profit was 27.0%.

3. Corporate Banking

The following tables set out a summary of the profit and loss of the Corporate Banking segment:

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ending 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	**508**	**8**	**-**	**444**	**5**	**(1)**	**964**
Intersegmental	**(247)**	**(3)**	**-**	**(276)**	**(1)**	**2**	**(525)**
Operating and other income:							
From external sources	**35**	**45**	**5**	**21**	**1**	**-**	**107**
Intersegmental	**-**	**(29)**	**-**	**-**	**-**	**-**	**(29)**
Total income	**296**	**21**	**5**	**189**	**5**	**1**	**517**
Expenses in respect of credit losses	**16**	**(1)**	**-**	**174**	**-**	**-**	**189**
Operating and other expenses:							
To external sources	**86**	**20**	**3**	**30**	**2**	**-**	**141**
Intersegmental	**(1)**	**1**	**-**	**-**	**-**	**-**	**-**
Operating profit (loss) before taxes	**195**	**1**	**2**	**(15)**	**3**	**1**	**187**
Provision for taxes (benefit) on operating profit	**66**	**1**	**-**	**(5)**	**1**	**-**	**63**
Operating profit (loss) after taxes	**129**	**-**	**2**	**(10)**	**2**	**1**	**124**
Net operating profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**129**	**(1)**	**2**	**(10)**	**2**	**1**	**123**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ending 30 September 2010						
	NIS millions						
Net interest income:							
From external sources	567	7	(2)	229	3	(1)	803
Intersegmental	(273)	(2)	2	(78)	(1)	2	(350)
Operating and other income:							
From external sources	40	50	6	17	1	-	114
Intersegmental	(1)	(31)	-	-	-	-	(32)
Total income	333	24	6	168	3	1	535
Expenses in respect of credit losses	(130)	2	-	(25)	-	-	(153)
Operating and other expenses:							
To external sources	100	18	2	28	2	1	151
Intersegmental	1	-	-	-	-	-	1
Operating profit before taxes	362	4	4	165	1	-	536
Provision for taxes on operating profit	131	1	1	59	-	-	192
Operating profit after taxes	231	3	3	106	1	-	344
Operating profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit	231	2	3	106	1	-	343

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the nine months ending 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	**1,276**	**22**	**5**	**1,187**	**11**	**(2)**	**2,499**
Intersegmental	**(484)**	**(8)**	**(5)**	**(689)**	**(1)**	**6**	**(1,181)**
Operating and other income:							
From external sources	**119**	**143**	**15**	**78**	**3**	**1**	**359**
Intersegmental	**-**	**(87)**	**-**	**-**	**-**	**-**	**(87)**
Total income	**911**	**70**	**15**	**576**	**13**	**5**	**1,590**
Expenses in respect of credit losses	**(25)**	**(2)**	**-**	**175**	**-**	**-**	**148**
Operating and other expenses:							
To external sources	**292**	**54**	**8**	**99**	**7**	**2**	**462**
Intersegmental	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Operating profit before taxes	**644**	**17**	**7**	**302**	**6**	**3**	**979**
Provision for taxes on operating profit	**219**	**4**	**2**	**104**	**2**	**-**	**331**
Operating profit after taxes	**425**	**13**	**5**	**198**	**4**	**3**	**648**
Net operating profit attributable to non-controlling interests	**-**	**(3)**	**-**	**-**	**-**	**-**	**(3)**
Net profit	**425**	**10**	**5**	**198**	**4**	**3**	**645**
% Return on equity							**10.7%**
Average balance of assets	**49,320**	**420**	**157**	**26,306**	**568**	**-**	**76,771**
Average balance of liabilities	**26,342**	**2,579**	**58**	**5,613**	**236**	**285**	**35,113**
Average balance of risk assets	**70,143**	**389**	**156**	**26,692**	**856**	**-**	**98,236**
Average balance of mutual fund and supplementary training fund assets	**-**	**-**	**1,327**	**-**	**-**	**-**	**1,327**
Average balance of securities	**-**	**-**	**85,336**	**-**	**155**	**-**	**85,491**
Average balance of other assets under management	**180**	**-**	**-**	**-**	**-**	**-**	**180**
Balance of credit to the public	**49,388**	**430**	**161**	**26,015**	**513**	**-**	**76,507**
Balance of deposits of the public	**22,870**	**-**	**-**	**5,168**	**56**	**283**	**28,377**

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the nine months ending 30 September 2010						
	NIS millions						
Net interest income:							
From external sources	1,317	19	-	872	11	(1)	2,218
Intersegmental	(405)	(5)	-	(297)	(4)	5	(706)
Operating and other income:							
From external sources	126	137	20	50	2	1	336
Intersegmental	-	(93)	-	-	-	-	(93)
Total income	1,038	58	20	625	9	5	1,755
Expenses in respect of credit losses	(190)	4	-	150	1	-	(35)
Operating and other expenses:							
To external sources	300	50	6	88	6	4	454
Intersegmental	1	-	-	-	-	-	1
Operating profit before taxes	927	4	14	387	2	1	1,335
Provision for taxes on operating profit	328	1	5	137	1	-	472
Operating profit after taxes	599	3	9	250	1	1	863
Net operating profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit	599	2	9	250	1	1	862
% Return on equity							14.0%
Average balance of assets	45,439	464	156	26,762	549	54	73,424
Average balance of liabilities	24,724	2,608	26	5,179	106	365	33,008
Average balance of risk assets	63,336	406	157	26,743	786	54	91,482
Average balance of mutual fund and supplementary training fund assets	-	-	1,061	-	-	-	1,061
Average balance of securities	-	-	84,170	-	161	-	84,331
Average balance of other assets under management	201	-	-	-	-	-	201
Balance of credit to the public at 31 December 2010	45,508	398	155	26,422	680	-	73,163
Balance of deposits of the public at 31 December 2010	20,791	-	89	4,940	144	317	26,281

Corporate Banking (cont**.)**

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 3.3 billion compared with the end of 2010, an increase of 4.6% and total deposits of the public increased by NIS 2 billion, or about 8.0%. Guarantees and documentary credits increased by NIS 2.9 billion, 12%.

Main Changes in Net Profit

In the first nine months of 2011, net profit in the corporate banking segment totaled NIS 645 million, compared with NIS 862 million during the corresponding period in 2010, a decrease of 25.2%. The decrease in profit derives mainly from an increase in expenses in respect of credit losses amounting to NIS 183 million and a decrease in total income amounting to NIS 165 million, or 9.4%.

The return on equity of the net profit was 10.7%.

4. Commercial Banking

The following tables set out a summary of the profit and loss of the Commercial Banking segment:

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ending 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	**552**	**3**	**5**	**98**	**139**	**-**	**34**	**831**
Intersegmental	**(370)**	**(1)**	**(5)**	**(47)**	**(20)**	**-**	**(10)**	**(453)**
Operating and other income:								
From external sources	**58**	**19**	**10**	**7**	**8**	**2**	**3**	**107**
Intersegmental	**-**	**(9)**	**-**	**-**	**-**	**-**	**-**	**(9)**
Total income	**240**	**12**	**10**	**58**	**127**	**2**	**27**	**476**
Expenses in respect of credit losses	**47**	**(1)**	**-**	**(4)**	**9**	**-**	**7**	**58**
Operating and other expenses:								
To external sources	**120**	**6**	**9**	**16**	**87**	**1**	**9**	**248**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit before taxes	**73**	**7**	**1**	**46**	**31**	**1**	**11**	**170**
Provision for taxes on operating profit	**26**	**1**	**1**	**16**	**15**	**-**	**6**	**65**
Net profit	**47**	**6**	**-**	**30**	**16**	**1**	**5**	**105**

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ending 30 September 2010								
	NIS millions								
Net interest income:									
From external sources	240	2	3	12	46	123	-	37	463
Intersegmental	(47)	(1)	(2)	(9)	(1)	(21)	-	(15)	(96)
Operating and other income:									
From external sources	59	17	11	-	7	12	2	2	110
Intersegmental	-	(9)	-	-	-	-	-	-	(9)
Total income	252	9	12	3	52	114	2	24	468
Expenses in respect of credit losses	38	-	-	1	(6)	67	-	27	127
Operating and other expenses:									
To external sources	131	5	10	1	10	79	2	14	252
Intersegmental	1	-	-	-	-	-	-	-	1
Operating profit (loss) before taxes	82	4	2	1	48	(32)	-	(17)	88
Provision for taxes (benefit) on operating profit	27	1	1	1	18	(8)	-	(5)	35
Net profit (loss)	55	3	1	-	30	(24)	-	(12)	53

Commercial Banking (cont**.)**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Capital market	Overseas activity Real estate	Total
	For the nine months ending 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	**923**	**9**	**1**	**343**	**381**	**-**	**100**	**1,757**
Intersegmental	**(385)**	**(3)**	**-**	**(177)**	**(51)**	**-**	**(28)**	**(644)**
Operating and other income:								
From external sources	**178**	**50**	**31**	**23**	**29**	**6**	**6**	**323**
Intersegmental	**-**	**(28)**	**-**	**-**	**-**	**-**	**-**	**(28)**
Total income	**716**	**28**	**32**	**189**	**359**	**6**	**78**	**1,408**
Expenses in respect of credit losses	**20**	**(1)**	**-**	**21**	**29**	**-**	**29**	**98**
Operating and other expenses:								
To external sources	**389**	**19**	**24**	**51**	**250**	**4**	**31**	**768**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Operating profit before taxes	**306**	**10**	**8**	**117**	**80**	**2**	**18**	**541**
Provision for taxes on operating profit	**108**	**2**	**3**	**40**	**37**	**1**	**10**	**201**
Operating profit after taxes	**198**	**8**	**5**	**77**	**43**	**1**	**8**	**340**
Operating profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit	**198**	**7**	**5**	**77**	**43**	**1**	**8**	**339**
% return on equity								**11.9%**
Average balance of assets	**23,952**	**326**	**468**	**7,965**	**13,495**	**-**	**3,304**	**49,510**
Average balance of liabilities	**30,358**	**889**	**-**	**2,491**	**8,565**	**-**	**366**	**42,669**
Average balance of risk assets	**24,236**	**261**	**541**	**8,603**	**13,020**	**-**	**3,304**	**49,965**
Average balance of mutual fund and supplementary training fund assets	**-**	**-**	**4,225**	**-**	**-**	**138**	**-**	**4,363**
Average balance of securities	**-**	**-**	**39,040**	**-**	**-**	**1,864**	**-**	**40,904**
Average balance of other assets under management	**681**	**-**	**-**	**-**	**-**	**-**	**-**	**681**
Balance of credit to the public	**23,229**	**330**	**250**	**8,060**	**15,042**	**-**	**3,197**	**50,108**
Balance of deposits of the public	**31,045**	**-**	**-**	**2,376**	**9,584**	**-**	**358**	**43,363**

Commercial Banking (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the nine months ending 30 September 2010								
	NIS millions								
Net interest income:									
From external sources	614	7	9	28	203	356	-	107	1,324
Intersegmental	(41)	(2)	(8)	(21)	(51)	(52)	-	(41)	(216)
Operating and other income:									
From external sources	168	47	38	2	20	30	7	6	318
Intersegmental	-	(29)	-	-	-	-	-	-	(29)
Total income	741	23	39	9	172	334	7	72	1,397
Expenses in respect of credit losses	69	1	-	(1)	21	99	-	33	222
Operating and other expenses:									
To external sources	389	17	29	4	44	234	5	39	761
Intersegmental	1	-	-	1	-	-	-	-	2
Operating profit before taxes	282	5	10	5	107	1	2	-	412
Provision for taxes (benefit) on operating profit	99	1	4	2	38	7	1	(1)	151
Net profit (loss)	183	4	6	3	69	(6)	1	1	261
% return on equity									9.5%
Average balance of assets	22,335	323	411	567	6,669	12,376	-	3,701	46,382
Average balance of liabilities	26,210	885	-	121	2,166	8,446	-	407	38,235
Average balance of risk assets	25,452	268	400	1,030	6,256	11,899	-	3,701	49,006
Average balance of mutual fund and supplementary training fund assets	-	-	3,285	-	-	-	157	-	3,442
Average balance of securities	-	-	36,387	-	-	-	2,338	-	38,725
Average balance of other assets under management	564	-	-	-	-	-	-	-	564
Balance of credit to the public at 31 December 2010	22,291	306	1,045	-	7,781	12,042	-	3,761	47,226
Balance of deposits of the public at 31 December 2010	25,837	-	-	-	2,183	7,989	-	412	36,421

Commercial Banking (cont**.)**

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 2.8 billion, an increase of 6.1%, compared with the end of 2010, and total deposits of the public increased by NIS 6.9 billion, or 19.1%.

Main Changes in Net Profit

In the first nine months of 2011, net profit in the commercial banking segment totaled NIS 339 million, compared with NIS 261 million during the corresponding period in 2010, an increase of NIS 78 million or 29.9%. The increase in profit derives from a decrease in expenses in respect of credit losses amounting to NIS 124 million.

The return on equity of the net profit was 11.9%.

5. Private Banking

The following tables set out a summary of the profit and loss in the Private Banking segment:

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Mortgages	Overseas activity: Real estate	Total
	For the three months ending 30 September 2011								
	NIS millions								
Net interest income:									
From external sources	**(35)**	**-**	**-**	**1**	**20**	**-**	**9**	**(1)**	**(6)**
Intersegmental	**76**	**-**	**-**	**3**	**45**	**-**	**(5)**	**1**	**120**
Operating and other income:									
From external sources	**8**	**-**	**35**	**2**	**24**	**31**	**1**	**1**	**102**
Intersegmental	**-**	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**2**
Total income	**49**	**1**	**35**	**6**	**90**	**31**	**5**	**1**	**218**
Expenses in respect of credit losses	**2**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**1**
Operating and other expenses:									
To external sources	**36**	**-**	**13**	**3**	**84**	**31**	**3**	**1**	**171**
Intersegmental	**(1)**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**
Operating profit (loss) before taxes	**12**	**1**	**22**	**4**	**6**	**(1)**	**2**	**-**	**46**
Provision for taxes (benefit) on operating profit	**4**	**-**	**7**	**2**	**(1)**	**-**	**1**	**-**	**13**
Net profit (loss)	**8**	**1**	**15**	**2**	**7**	**(1)**	**1**	**-**	**33**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ending 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	(49)	-	-	2	25	-	(1)	(23)
Intersegmental	82	-	-	-	40	-	1	123
Operating and other income:								
From external sources	7	-	38	-	30	34	1	110
Intersegmental	(1)	1	-	-	2	-	-	2
Total income	39	1	38	2	97	34	1	212
Expenses in respect of credit losses	-	-	-	-	4	-	-	4
Operating and other expenses:								
To external sources	41	-	13	1	86	31	1	173
Intersegmental	1	-	-	-	1	-	-	2
Operating profit (loss) before taxes	(3)	1	25	1	6	3	-	33
Provision for taxes on operating profit	-	-	9	-	-	2	-	11
Net profit (loss)	(3)	1	16	1	6	1	-	22

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Mortgages	Overseas activity: Real estate	Total
	For the nine months ending 30 September 2011									
	NIS millions									
Net interest income:										
From external sources	**(123)**	**-**	**-**	**1**	**4**	**49**	**-**	**27**	**(1)**	**(43)**
Intersegmental	**237**	**-**	**-**	**-**	**6**	**131**	**-**	**(13)**	**3**	**364**
Operating and other income:										
From external sources	**22**	**-**	**117**	**-**	**6**	**85**	**98**	**3**	**1**	**332**
Intersegmental	**1**	**1**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**8**
Total income	**137**	**1**	**117**	**1**	**16**	**271**	**98**	**17**	**3**	**661**
Expenses in respect of credit losses	**(5)**	**-**	**-**	**-**	**1**	**(22)**	**-**	**1**	**-**	**(25)**
Operating and other expenses:										
To external sources	**121**	**1**	**42**	**-**	**7**	**212**	**91**	**10**	**2**	**486**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**-**	**2**
Operating profit before taxes	**21**	**-**	**75**	**1**	**8**	**80**	**6**	**6**	**1**	**198**
Provision for taxes on operating profit	**9**	**-**	**24**	**-**	**3**	**19**	**1**	**2**	**-**	**58**
Operating profit after taxes	**12**	**-**	**51**	**1**	**5**	**61**	**5**	**4**	**1**	**140**
Operating profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**(2)**
Net profit	**12**	**-**	**51**	**1**	**5**	**59**	**5**	**4**	**1**	**138**
% Return on equity										**23.6%**
Average balance of assets	**1,526**	**57**	**10**	**41**	**432**	**7,624**	**-**	**855**	**18**	**10,563**
Average balance of liabilities	**19,919**	**-**	**-**	**-**	**940**	**15,387**	**-**	**14**	**189**	**36,449**
Average balance of risk assets	**1,235**	**44**	**9**	**31**	**434**	**7,072**	**-**	**299**	**18**	**9,142**
Average balance of mutual fund and supplementary training fund assets	**-**	**-**	**4,806**	**-**	**-**	**-**	**1,641**	**-**	**-**	**6,447**
Average balance of securities	**-**	**-**	**38,260**	**-**	**-**	**-**	**28,256**	**-**	**-**	**66,516**
Average balance of other assets under management	**221**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**221**
Balance of credit to the public	**1,698**	**54**	**11**	**38**	**420**	**4,815**	**-**	**1,133**	**2**	**8,171**
Balance of deposits of the public	**18,892**	**-**	**-**	**-**	**1,039**	**15,671**	**-**	**21**	**192**	**35,815**

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the nine months ending 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	(112)	-	-	6	75	-	(1)	(32)
Intersegmental	208	-	-	(1)	125	-	3	335
Operating and other income:								
From external sources	23	-	114	2	92	97	1	329
Intersegmental	1	1	-	-	5	-	-	7
Total income	120	1	114	7	297	97	3	639
Expenses in respect of credit losses	1	-	-	-	5	-	1	7
Operating and other expenses:								
To external sources	128	1	40	4	256	83	2	514
Intersegmental	1	-	-	-	2	1	-	4
Operating profit (loss) before taxes	(10)	-	74	3	34	13	-	114
Provision for taxes (benefit) on operating profit	(3)	-	25	1	10	4	-	37
Operating profit (loss) after taxes	(7)	-	49	2	24	9	-	77
Operating profit attributable to non-controlling interests	-	-	-	-	(3)	-	-	(3)
Net profit (loss)	(7)	-	49	2	21	9	-	74
% Return on equity								14.7%
Average balance of assets	1,216	54	1	451	9,095	-	25	10,842
Average balance of liabilities	22,327	-	-	740	16,712	-	223	40,002
Average balance of risk assets	1,535	40	1	442	7,324	-	25	9,367
Average balance of mutual fund and supplementary training fund assets	-	-	3,684	-	-	1,469	-	5,153
Average balance of securities	-	-	36,399	-	-	30,082	-	66,481
Average balance of other assets under management	264	-	-	-	-	-	-	264
Balance of credit to the public at 31 December 2010	1,385	61	7	472	5,793	-	20	7,738
Balance of deposits of the public at 31 December 2010	20,460	-	-	785	14,760	-	236	36,241

Private Banking (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 433 million, or 5.6%, compared with the end of 2010, and total deposits of the public decreased by some NIS 426 million, or about 1.2%.

Main Changes in Net Profit

In the first nine months of 2011, net profit in the private banking segment amounted to NIS 138 million, compared with NIS 74 million in the corresponding period in 2010, an increase of NIS 64 million or 86.5%. The increase in profit derives mainly from an increase in income amounting to NIS 22 million, or 3.4%, resulting from a decrease of NIS 32 million in credit losses, mainly as a result of cancelling a provision for a debt of a foreign operation, and a decrease in operating expenses amounting to NIS 30 million, mainly in foreign operations. The main improvement in the activity of the segment was in Israel and in Leumi UK.

The return on equity of the net profit was 23.6%.

6. Financial Management – Capital Markets

	For the three months ending 30 September		For the nine months ending 30 September	
	2011	2010	**2011**	2010
	(NIS millions)		(NIS millions)	
Net interest income:				
From external sources	**(901)**	(30)	**(842)**	(56)
Intersegmental	**730**	144	**1,011**	126
Operating and other income:				
From external sources	**(34)**	73	**127**	319
Intersegmental	**7**	1	**23**	3
Total income	**(198)**	188	**319**	392
Provisions for doubtful debts	**75**	(11)	**74**	(6)
Operating and other expenses:				
To external sources	**405**	115	**1,104**	580
Intersegmental	**10**	2	**29**	22
Operating profit (loss) before taxes	**(688)**	82	**(888)**	(204)
Provision for taxes (benefit)	**(266)**	71	**(362)**	(37)
Operating profit (loss) after taxes	**(422)**	11	**(526)**	(167)
Group share in operating profits of companies included on equity basis after effect of tax	**115**	57	**145**	259
Net operating loss attributed to non-controlling interests	**(2)**	(4)	**(10)**	(2)
Net operating profit (loss)	**(309)**	64	**(391)**	90
Profit from extraordinary activities after taxes	**-**	1	**-**	183
Net profit (loss)	**(309)**	65	**(391)**	273

In the first nine months of 2011, the net loss in the financial management segment amounted to NIS 391 million, compared with a profit of NIS 273 million in the corresponding period last year. The decrease is explained mainly by the following factors:

a. The decrease in operating income stems from adjustment of the market value of the shares of Partner in the amount of NIS 239 million.

b. An increase in operating and other expenses amounting to NIS 531 million. Most of the increase derives from an increase in operating expenses, as a result of a fall in the profits of the severance pay and provident funds, compared to profits in the corresponding period last year. The net effect is an increase in salary expenses of NIS 359 million.

c. A decrease in the Group's share in profits of companies included on equity basis amounting to NIS 114 million.

d. The improvement in contribution of the overseas units partially offset the above negative effects.

Companies Included on Equity Basis (Non-Banking) – (reported in the Financial Management Sector)

This includes the results of the Group's investment in non-banking (real) investments.

Leumi Group's total investments in companies included on equity basis amounted to NIS 2,350 million on 30 September 2011, compared with NIS 1,924 million on 31 December 2010.

Total investments in shares of companies included on equity basis (Table 13B - Basel II):

	Book value (NIS millions)			Market value (NIS millions)		Capital adequacy requirements	
Company	**30 September 2011**	31 December 2010	% change	**30 September 2011**	31 December 2010	**30 September 2011**	31 December 2010
The Israel Corporation Ltd.	**1,750**	1,635	7.0	**3,490**	5,953	**149**	147
Others *	**600**	289	+	**-**	-	**54**	26
Total	**2,350**	1,924	22.1	**3,490**	5,953	**203**	173

* Including investments in SuperPharm amounting to NIS 189 million.

The contribution to Group profit of companies included on equity basis in the first nine months of 2011 amounted to a loss of NIS 145 million, compared with a profit of NIS 259 million in the corresponding period last year.

The following table shows the companies' contribution to the Group's net profit (in NIS millions):

	For the nine months ended 30 September		
	2011	2010	% change
The Israel Corporation Ltd.	**113**	215	(47.4)
Paz Oil Company Ltd. *	**-**	29	-
Others	**32**	15	+
Total	**145**	259	(44.0)

* The investment was sold in June 2010.

Avgol Industries 1953 Ltd.
On 29 June 2011, Leumi Partners Ltd. (a wholly-owned company of the Bank) (hereinafter: "Leumi Partners") signed an agreement with Protochemicals Investments (2006) Ltd., Yehoshua Goldwasser, Music-Net Ltd., Ahai Boneh, Ahai Boneh Holdings Ltd.. Avraham Zilberfeld and Avzil Holdings Ltd. ("the sellers") for the acquisition from the sellers of a total of 34,253,163 ordinary shares of Avgol Industries 1953 Ltd. (hereinafter "the Company"), representing some 11.26% of the issued and paid-in capital of the Company (in full dilution) and options to purchase 25,317,555 ordinary shares of the Company (hereinafter: "the options"), representing as of this date some 8.32% of the issued and paid-in capital if the Company (in full dilution) in consideration of NIS 110 million (hereinafter: "the agreement"). The options are exercisable for a period of three years from the date of signing the agreement in consideration of an exercise price of NIS 3.25 per share, net of dividend. The agreement includes customary rights to protect the investment of Leumi Partners. The transaction pursuant to the agreement was completed on 29 June 2011.

Holdings in Non-banking Holding Corporations (Conglomerates)
The Bank's holdings in non-banking corporations are subject to restrictions determined in the Banking (Licensing) Law, 1981 (the "Banking Law"). The Banking Law determines, *inter alia*, in section 24A, that a banking corporation is entitled to hold more than 1% of the means of control in only one conglomerate (a corporation whose capital exceeds some NIS 2,000 million and operates in more than three branches of the economy). The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

7. Others - this segment includes activities not allocated to the other segments.
This segment includes the other activities of the Group, none of which amounts to a profit segment according to the directives of the Bank of Israel. This activity includes primarily: part of the operations of companies that are not allocated to the other segments. During the first nine months of 2011, the loss in the "Others" segment amounted to NIS 68 million, compared with a profit of NIS 15 million in the corresponding period last year.

The following table sets out details of the main changes, in NIS millions:

	For the nine months ended 30 September		
	2011	2010	Change in amount
Profit (loss) from extraordinary items	**2**	3	(1)
From operating activity at the Bank	**13**	16	(3)
Other companies in Israel	**7**	14	(7)
Overseas companies	**13**	5	8
Tax adjustments (1)	**(103)**	(23)	(82)
Total	**(68)**	15	(83)

(1) Tax differentials between tax calculations in the segments and the effective tax in the Consolidated Statements.

Activities in Products

A. Capital market activities - The Group's activities in the capital market include investment counseling activity, including counseling in relation to supplementary training funds, brokerage in the securities and financial instruments market, including activity carried out through the foreign currency and Israeli and foreign securities dealing rooms, brokerage and custody services, and banking and financial services for entities active in the capital market. A subsidiary company of Leumi Partners Ltd. engages in underwriting and distribution of public and private offerings.

The following tables set out details of the capital market operations as presented in the various operating segments:

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 30 September 2011							
	NIS millions							
Profit (loss) from net interest income	**1**	**(1)**	**-**	**-**	**-**	**2**	**-**	**2**
Operating and other income	**117**	**5**	**5**	**10**	**35**	**20**	**34**	**226**
Total income	**118**	**4**	**5**	**10**	**35**	**22**	**34**	**228**
Operating and other expenses	**74**	**3**	**3**	**9**	**13**	**15**	**26**	**143**
Operating profit before taxes	**44**	**1**	**2**	**1**	**22**	**7**	**8**	**85**
Net profit	**29**	**1**	**2**	**-**	**15**	**2**	**5**	**54**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 30 September 2010							
	NIS millions							
Profit from net interest income	-	-	-	1	-	4	-	5
Operating and other income	128	6	6	11	38	21	38	248
Total income	128	6	6	12	38	25	38	253
Operating and other expenses	55	3	2	10	13	9	33	125
Operating profit before taxes	73	3	4	2	25	16	5	128
Net profit	47	1	3	1	16	11	3	82

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2011							
	NIS millions							
Profit from net interest income	**2**	**-**	**-**	**1**	**-**	**4**	**-**	**7**
Operating and other income	**385**	**19**	**15**	**31**	**117**	**83**	**108**	**758**
Total income	**387**	**19**	**15**	**32**	**117**	**87**	**108**	**765**
Operating and other expenses	**241**	**10**	**8**	**24**	**42**	**44**	**101**	**470**
Operating profit before taxes	**146**	**9**	**7**	**8**	**75**	**43**	**7**	**295**
Net profit	**96**	**6**	**5**	**5**	**51**	**28**	**7**	**198**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2010							
	NIS millions							
Profit from net interest income	1	1	-	1	-	5	-	8
Operating and other income	396	19	20	38	114	81	109	777
Total income	397	20	20	39	114	86	109	785
Operating and other expenses	184	7	6	29	40	28	90	384
Operating profit before taxes	213	13	14	10	74	58	19	401
Net profit	137	8	9	6	49	39	14	262

In the first nine months of 2011, net operating profit after taxes from capital market operations amounted to NIS 198 million, compared with NIS 262 million in the corresponding period in 2010.

B. Credit Cards - Leumi Card

This activity includes mainly the issue of credit cards to private customers and voucher clearing services for businesses.

The principal credit card activities are carried out by the subsidiary, Leumi Card, which engages in the issue of credit cards, the provision of voucher clearing services and the development of payment solutions.

Leumi Card ended the first nine months of 2011 with a net profit of NIS 134 million, compared with NIS 118 million in the corresponding period in 2010.

During the first nine months of 2011, the volume of activity by Leumi Card cardholders increased by 8.1% compared with the activity in the corresponding period in 2010. The number of valid cards increased by some 5.0% in the first nine months of 2011, as compared with the corresponding period last year.

On 7 August 2011, a ruling was handed down in the Restrictive Practices Court on the question of the determination of the appropriate methodology for calculating the interchange commission (the issuer's commission) according to which the validity of the temporary permit granted through 31 December 2011 was extended, providing that the average rate of cross-commission does not exceed 0.875% from 1 November 2011.
The average rate of interchange commission before 1 November 2011 was 0.975%.
On 7 August 2011, a decision was handed in the court whereby the validity of the temporary permit granted to the applicants of approval for the arrangement was extended to 31 December 2011, providing that the proposed rate of interchange commission does not exceed 0.875% with effect from 1 November 2011.
The said arrangement is expected to have a significant impact in future years on both the income of Leumi Card as an issuer and its expenses as a clearing agent

For further information, see notes 6c and 6f in the financial statements.

The following tables set out details of credit card activity as presented in the various operating segments:

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 30 September 2011					
	NIS millions					
Profit from net interest income	**47**	**5**	**5**	**2**	**-**	**59**
Operating and other income	**183**	**12**	**16**	**10**	**1**	**222**
Total income	**230**	**17**	**21**	**12**	**1**	**281**
Expenses in respect of credit losses	**6**	**-**	**(1)**	**(1)**	**-**	**4**
Operating and other expenses	**152**	**14**	**21**	**6**	**-**	**193**
Operating profit before taxes	**72**	**3**	**1**	**7**	**1**	**84**
Minority interests	**(7)**	**(1)**	**(1)**	**-**	**-**	**(9)**
Net profit (loss)	**44**	**-**	**(1)**	**6**	**1**	**50**

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 30 September 2010					
	NIS millions					
Profit from net interest income	42	4	5	1	-	52
Operating and other income	174	12	19	8	1	214
Total income	216	16	24	9	1	266
Expenses in respect of credit losses	5	1	2	-	-	8
Operating and other expenses	139	12	18	5	-	174
Operating profit before taxes	72	3	4	4	1	84
Minority interests	(8)	(1)	(1)	-	-	(10)
Net profit	43	-	2	3	1	49

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the nine months ended 30 September 2011					
	NIS millions					
Profit from net interest income	**136**	**14**	**14**	**6**	**-**	**170**
Operating and other income	**521**	**40**	**56**	**22**	**1**	**640**
Total income	**657**	**54**	**70**	**28**	**1**	**810**
Expenses in respect of credit losses	**17**	**(1)**	**(2)**	**(1)**	**-**	**13**
Operating and other expenses	**451**	**37**	**55**	**19**	**1**	**563**
Operating profit before taxes	**189**	**18**	**17**	**10**	**-**	**234**
Share of minority shareholders	**(21)**	**(2)**	**(3)**	**(1)**	**-**	**(27)**
Net profit	**114**	**10**	**10**	**7**	**-**	**141**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the nine months ended 30 September 2010					
	NIS millions					
Profit from net interest income	119	12	14	5	-	150
Operating and other income	510	33	44	18	1	606
Total income	629	45	58	23	1	756
Expenses in respect of credit losses	15	2	4	1	-	22
Operating and other expenses	413	34	50	17	1	515
Operating profit before taxes	201	9	4	5	-	219
Minority interests	(22)	(1)	(1)	-	-	(24)
Net profit	121	4	2	4	-	131

The operating profit from credit card activities in the first nine months of 2011 amounted to NIS 141 million, as compared with NIS 131 million in the corresponding period in 2010, an increase of 7.6%, resulting primarily from an increase in revenues of NIS 54 million.

C. Real Estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 30 September 2011					
	NIS millions					
Profit from net interest income	**54**	**168**	**51**	**4**	**43**	**320**
Operating and other income	**14**	**21**	**7**	**2**	**6**	**50**
Total income	**68**	**189**	**58**	**6**	**49**	**370**
Expenses in respect of credit losses	**5**	**174**	**(4)**	**(1)**	**9**	**183**
Operating and other expenses	**28**	**30**	**16**	**3**	**11**	**88**
Operating profit (loss) before taxes	**35**	**(15)**	**46**	**4**	**29**	**99**
Net profit (loss)	**23**	**(10)**	**30**	**2**	**16**	**61**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 30 September 2010					
	NIS millions					
Profit from net interest income	39	151	45	2	59	296
Operating and other income	11	17	7	-	5	40
Total income	50	168	52	-	64	336
Expenses in respect of credit losses	4	(25)	(6)	-	22	(5)
Operating and other expenses	21	28	10	1	17	77
Operating profit before taxes	25	165	48	1	25	264
Net profit	16	106	30	1	16	169

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the nine months ended 30 September 2011					
	NIS millions					
Profit from net interest income	**156**	**498**	**166**	**10**	**114**	**944**
Operating and other income	**40**	**78**	**23**	**6**	**11**	**158**
Total income	**196**	**576**	**189**	**16**	**125**	**1,102**
Expenses in respect of credit losses	**-**	**175**	**21**	**1**	**31**	**228**
Operating and other expenses	**78**	**99**	**51**	**7**	**37**	**272**
Operating profit before taxes	**118**	**302**	**117**	**8**	**57**	**602**
Net profit	**77**	**198**	**77**	**5**	**32**	**389**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the nine months ended 30 September 2010					
	NIS millions					
Profit from net interest income	132	575	152	5	126	990
Operating and other income	33	50	20	2	12	117
Total income	165	625	172	7	138	1,107
Expenses in respect of credit losses	13	150	21	-	33	217
Operating and other expenses	70	88	44	4	47	253
Operating profit before taxes	82	387	107	3	58	637
Net profit	53	250	69	2	39	413

Profit Centers in the Group

The following table sets out details of the contribution of the Group's major profit centers to net operating profit:

	For the first nine months of			For the first nine months of		
	2011[(1)]	2010[(1)] *	Change	**2011[(2)]**	2010[(2)]*	Change
	NIS millions		%	NIS millions		%
The Bank	**678**	906	(25.2)	**533**	995	(46.4)
Consolidated companies in Israel [(3)]	**294**	500	(41.2)	**294**	500	(41.2)
Overseas consolidated companies [(4)]	**181**	29	+	**326**	(60)	+
Companies included on equity basis [(3)]	**118**	217	(45.6)	**118**	217	(45.6)
Net operating profit	**1,271**	1,652	(23.1)	**1,271**	1,652	(23.1)
Overseas subsidiaries' profit, in nominal terms (US$ millions) [(5)]	**38.8**	24.4	(59.0)	**38.8**	24.4	(59.0)

* Restated, see note 1b.4.

(1) Translation adjustments in respect of overseas investments are offset against translation adjustments of the financing sources at the Bank after the effect of taxes.
(2) According to the financial statements (not including translation adjustments of the financing sources at the Bank).
(3) Companies included on equity basis belonging to Israeli companies are included in the data of the consolidated companies in Israel.
(4) After certain adjustments to Israeli accounting principles.
(5) As reported by the overseas subsidiaries, including overseas branches and minority interests.

The following are the main changes in the contribution of the profit centers (after translation adjustments):

- The decrease in net operating profit at the Bank arises mainly from an increase in credit loss expenses and from an increase in operating expenses, particularly salary expenses, which was partially offset by an increase in net interest income and income from operating commissions and other income. Most of the explanations for the abovementioned changes are presented on pages 36-51 as part of the discussion on the Group's results and those arising mainly from the Bank's results.

- The increase in net operating profit of consolidated companies in Israel derives mainly from an increase in the profits of the Leumi Mortgage Bank, Israel Arab Bank, Leumi Card and Leumi Leasing and Investments which was partially offset by a decrease in the profits of Leumi Partners and Leumi Real Holdings.

- The increase in the profit of overseas subsidiaries derives from an increase in profits of the subsidiaries, as well as from positive exchange rate differentials in respect of overseas investments, compared with high negative exchange rate differentials in the corresponding period in 2010.

- The decrease in income of companies included on an equity basis derives from a decrease in income from the Israel Corporation.

The operating profits of the overseas units in nominal terms, as published by them (including the Bank's overseas branches and minority interests) translated for convenience to U.S. dollars, totaled some US$ 38.8 million, an increase of US$ 14.4 million compared with the corresponding period in 2010. The contribution of the overseas units in shekels, after certain adjustments to Israeli accounting principles, amounted to a profit of NIS 326 million, compared with a loss of NIS 60 million in the corresponding period in 2010. Excluding the effect of exchange rate differentials in respect of the net cost of financing sources, the profit of the overseas subsidiaries amounted to NIS 181 million, compared with a profit of NIS 29 million in the corresponding period in 2010, an increase of NIS 152 million. In the first nine months of 2011, there were positive exchange rate differentials in respect of foreign investments amounting to NIS 213 million, compared with negative differentials amounting to NIS 129 million in the corresponding period of 2010.

Activities of Major Investee Companies

General

The Bank Leumi Group operates in Israel and abroad through overseas subsidiaries, comprising banks, a mortgage bank, finance companies and financial service companies. The Group also invests in non-banking corporations operating in the fields of insurance, infrastructure and real estate.

Consolidated Subsidiaries in Israel

The Bank's investments in consolidated subsidiaries in Israel amounted to NIS 7,045 million on 30 September 2011, compared with NIS 7,123 million on 31 December 2010. The contribution to operating profit in the first nine months of 2011 was some NIS 294 million, compared with some NIS 500 million in the corresponding period in 2010, an increase of 41.2%, which resulted from recording an allowance for the impairment of the investment in the shares of Partner Communications Co. Ltd. in Leumi Partners.

The following table sets out the contribution of the major consolidated companies in Israel to the net profit of the Group:

	Return on Group investment		Contribution to Group profit (1)		
	For the period ended 30 September				
	2011	2010	**2011**	2010	Change
	%		NIS millions		%
Leumi Mortgage Bank	**7.9**	7.7	**156.2**	142.8	9.4
Arab Israel Bank	**29.2**	21.9	**72.5**	53.2	36.3
Leumi Card	**18.6**	18.5	**106.9**	94.2	13.5
Leumi Partners (2)	**-**	47.9	**(117.8)**	147.9	-
Leumi Securities	**5.3**	5.9	**1.5**	3.4	(55.9)
Leumi Real Holdings	**2.8**	41.5	**18.0**	206.6	-
Leumi Leasing and Investments	**4.3**	1.7	**29.1**	11.1	+
Others	**4.1**	3.4	**28.2**	24.0	17.5
Total consolidated subsidiaries in Israel	**5.6**	14.1	**294.6**	683.2	(57.9)

(1) The profit presented is according to the Group's share in the results.
(2) Including the profit and/or loss of companies included on an equity basis of Leumi Partners.

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 4,317 million on 30 September 2011, compared with NIS 3,986 million on 31 December 2010.

In the first nine months of 2011, the contribution of overseas consolidated subsidiaries to the net operating profit of the Group, after offsetting translation adjustments, amounted to a profit of NIS 181 million, compared with a profit of NIS 29 million in the corresponding period in 2010, as detailed below:

	For the first nine months of	
	2011	2010
	NIS millions	
Operating profit of the subsidiaries in shekels (the Group's share)	**113**	69
Exchange rate differentials in respect of the investment	**213**	(129)
Total	**326**	(60)
Exchange rate differentials in respect of the net cost of financing sources, after taxes	**(145)**	89
Total contribution of the subsidiaries (after offsetting net financing sources)	**181**	29

The following table sets out the contribution of the principal overseas consolidated companies to the net profit of the Group:

	Return on the Group's investment		Contribution to the Group's profit(*)		
	For the period ended 30 September				
	2011	2010	**2011**	2010	
	%		NIS millions		% change
Leumi USA (BLC)	**4.3**	1.2	**72.5**	22.2	+
Leumi UK	**14.1**	5.0	**63.9**	22.6	+
Leumi Switzerland	**5.6**	3.8	**26.9**	16.2	66.0
Leumi Luxembourg	**17.4**	13.3	**14.9**	10.0	49.0
Leumi Re	**26.0**	5.8	**14.8**	4.2	+
Leumi Romania	**-**	-	**(11.7)**	(46.5)	(74.8)
Others	**-**	-	**(1.8)**	(2.5)	(28.0)
Total overseas consolidated subsidiaries	**6.0**	0.8	**179.5**	26.2	+

(*) Translation adjustments in respect of the overseas investments were offset against translation adjustments in respect of the Bank's financing sources after the effect of taxes, in the amount of NIS (145) million (NIS 89 million in the corresponding period in 2010).

The following are some of the sums that were offset:

	For the period ended 30 September **2011**			For the period ended 30 September 2010		
	Exchange rate differential on investment	Offset of exchange rate differential on financing after tax	Total	Exchange rate differential on investment	Offset of exchange rate differential on financing after tax	Total
	NIS millions					
Leumi USA (BLC)	**104**	**(70)**	**34**	(67)	45	(22)
Leumi UK	**33**	**(23)**	**10**	(29)	20	(9)
Leumi Switzerland	**50**	**(35)**	**15**	13	(9)	4
Leumi Romania	**13**	**(10)**	**3**	(30)	22	(8)

The increase in the contribution to profit derives mainly from the effect of the depreciation in the rate of the shekel, compared to the dollar and compared to most currencies. The effect of the exchange rate differentials was to increase pre-tax profit by NIS 213 million during the first nine months of 2011, compared with a larger decrease in pre-tax profit by NIS 129 million in the corresponding period in 2010. Net financing expenses after tax recorded at the Bank, which offset part of these exchange rate differentials, totaled some NIS 145 million during the first nine months of 2011, compared with income of NIS 89 million in the corresponding period in 2010.

The following table sets out details of the net profit (loss) of the overseas subsidiaries as reported by them:

	For the nine months ended 30 September		
	2011	2010	Change
	In millions		%
Leumi USA (BLC) - US$	**11.9**	12.7	(6.3)
Of which: BL USA - US$	**15.2**	13.4	13.4
Leumi UK - £	**9.9**	5.8	70.7
Leumi Switzerland - CHF	**3.3**	5.1	(35.3)
Leumi Luxembourg - €	**2.5**	2.7	(7.4)
Leumi Re - US$	**4.7**	2.0	+
Leumi Romania –Ron	**(12.3)**	(24.8)	+
Total translated to the dollar	**34.8**	24.7	40.9

* 1 Ron = NIS 1.1714

The nominal profit of the overseas consolidated subsidiaries as reported by them totaled US$ 34.8 million in the first nine months of 2011, compared with US$ 24.7 million in the corresponding period in 2010, an increase of 40.9%.

For information regarding legal actions and other matters connected to consolidated companies, see note 6 to the Financial Statements.

Non-Banking Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis amounted to NIS 2,350 million on 30 September 2011, compared with NIS 1,924 million on 31 December 2010.

During the first nine months of 2011, the contribution to net profit was a profit of NIS 145 million, compared with a profit of NIS 259 million in the corresponding period in 2010. The decrease in profit stems from the fall in the profits of the Israel Corporation and from the sale of shares of Paz Oil Company Ltd. in June 2010.

Risk Exposure and Risk Management

This section is set out in more detail in the 2010 Financial Statements (pages 189-236), and should therefore be read in conjunction with the above Annual Report.

1. General

In the second quarter of 2011, the risk environment around the world and in Israel was considered to be improving. However, from the beginning of the third quarter, particularly from August, there was an increase in the risk environment due to the debt crisis in certain European countries, a downgrading of the credit rating of the United States, social unrest in Israel and the geopolitical situation in the region. All these factors have contributed to an increase in volatility on financial markets around the world and in Israel, and assessments that world growth rates would moderate and that Israel, being a small and open economy, would be affected by this. However, the starting point of the Israeli economy is better than that of many western states, from the aspect of the growth rate, low unemployment rates, and the central bank's greater degree of freedom

Leumi Group is ready to withstand scenarios of varying severity with regard to liquidity and capital. Recently, management has taken steps to reduce some of its exposure, in accordance with the risk factors that have arisen in the external environment, by adopting a forward-looking perspective. In addition, estimates regarding the impact on the Bank and the Group that scenarios of varying degrees of severity have been revised, with the aim of ensuring that these comply with the limitations on the risk appetite determined by the Board of Directors.

The management of the Bank holds regular discussions on the exposures likely to arise from the state of the markets and closely monitors those customers who are sensitive to the capital market, as well as the geopolitical situation. The Bank management's current assessment is that there is no credit exposure creating a material risk for the Bank.

Risk appetite of the Bank

Risk appetite reflects the level of exposure to risk that the Group is prepared to bear in order to achieve its business aims and the return to its shareholders. The risk appetite defined by the Leumi Board of Directors includes qualitative declarations guiding the Group's activities and strategy and quantitative definitions for some aspects: the return on capital to which the Bank aspires in the long term, the capital ratios that the Bank will hold at ordinary business times and the materialization of an extreme scenario, losses that the Bank is willing to absorb in scenarios of varying levels of severity, and other financial ratios – including liquidity ratio, financial leverage, etc. Risk appetite is approved by the management and the Board of Directors once a year and it reflects the conservative approach of Leumi Group and its long-term goal for stable and high profits in the banking system.

In connection with changes in the macroeconomic environment in July-August 2011, see above on pages 15 to 21.

2. Market and Liquidity Risks

Strategy for Management of Market and Liquidity Risks

Operating results, the fair value of assets and liabilities, capital, cash flows and the value of the Bank are exposed to market risks arising from volatility in interest rates, exchange rates, the CPI, the prices of securities in Israel and abroad, and other economic indices.

The policy for managing market risks is intended, on the one hand, to support the achievement of business goals by assessing the risks and damage that can result from exposure to risks and their limitation, compared with their forecast profit, and, on the other hand, to reduce the level of risk deriving from the Bank's ongoing activity, after taking into account the volume of activity, limitations and costs of hedging activity, changes occurring in the business environment in Israel and throughout the world, directives and requirements of the Bank of Israel, and developments occurring worldwide with regard to measurements and methods of managing risks and adapting them to the needs of the Group and the Bank.

The market risk management policy prescribes limits on financial exposure. These limits are intended to reduce the damage that may result from unexpected changes in the markets. The system of limits demarcates the impact of exposure on the current economic value, the accounting profit and the liquidity position to unexpected changes in the various risk factors, such as interest rates, the CPI, exchange rates, etc.

Market risks management at Group level is carried out at the overall level of both the banking portfolio and the trading portfolio. However, the Bank has specific limits for the trading portfolios and for each of the subsidiary companies.

Limits at Board of Directors level have been adjusted to the Bank's risk appetite in the light of targets for 2011, and with the aim of efficiently managing the capital and buffers required under Basel II against market risks. Limits set at the Group level include all the subsidiary companies in Israel and overseas. The foreign subsidiaries determine market risk management policy in coordination with the Bank in Israel, whereas the frameworks for exposure to market risks are fixed on a uniform basis set by the Bank and approved by the Bank's Market Risk Officer.

The Bank implements Proper Conduct of Banking Business Directive No. 339 of the Supervisor of Banks, regarding the Group’s market risk management. The directive stipulates basic principles for risk management and control, including the responsibility of the Management and the Board of Directors, the definition of the means of control and the tools for measuring risk and supervision of these risks.

Information on the exposure position is received from the subsidiary companies once a month or on request, and is taken into account in the overall management of the Group's exposures.

The following table sets forth the capital requirements in respect of Tier 1 market risks only * (Table 10 - Basel II):

	30 September 2011	30 September 2010	31 December 2010
	NIS millions		
Capital requirement in respect of:			
Interest risks	**603**	551	742
Share price risk	**-**	21	20
Exchange rate risk	**157**	59	97
Options	**67**	75	100
Total capital requirement in respect of market risks	**827**	706	959

* According to the standard approach, capital buffers are also calculated in respect of the Second Pillar**.**

3. Principal Market Risks:

3.1 Basis Exposure

In accordance with accounting principles, capital is defined as an unlinked shekel source, such that an investment of the capital in a sector other than the unlinked shekel sector is defined as a basis exposure. Exposure to the basis risks is measured as a percentage of the Group's exposed capital.

The exposed capital, at the Bank level, includes capital and certain reserves, less fixed assets and investments in investee companies, excluding the investments in subsidiaries abroad, which are financed from foreign currency sources and are therefore not deducted from capital. At the Group level, the exposed capital includes capital and certain reserves, less fixed assets and investments in companies included on the equity basis.

The exposure to basis risk is reflected in the loss that may occur due to changes in the CPI and exchange rates, as a result of the difference between the value of the assets and the value of the liabilities, including the effect of futures transactions in each of the linkage sectors.

The Bank's policy is to maintain close control over risks deriving from basis exposure, remaining within the limits set by the Board of Directors, and to establish the extent of exposure in each linkage sector on a regular and current basis, in accordance with economic forecasts of developments in the capital and money markets, as well as changes in prices, inflation and anticipated relative prices in the various sectors.

Exposure limits approved by the Board of Directors are determined according to considerations of expected return and risk and are allocated between the trading rooms, ALM, and the subsidiary companies. The ALM and trading rooms' positions are managed on a daily basis, having additional limits at the level of the risk, instrument and type of activity.

For the purposes of day-to-day management and reporting, certain changes have been made to take into account the Bank's economic approach to basis risks, which differs from the accounting approach.

The Bank takes an economic approach in managing basis exposure. Accordingly, there is no strict adherence to the accounting classification as presented in the note on assets and liabilities according to linkage basis, although adjustments are made taking into account the economic nature. In its ongoing management of the exposure, the Bank takes into consideration the occasional inconsistencies, with the object of limiting the impact on the reported accounting profit.

The exposure position in the basis, calculated pursuant to generally accepted accounting principles, is presented in note 5 to the Financial Statements.

The subsidiaries abroad and in Israel generally maintain a balance between the assets and liabilities in the various currencies, and their available capital is invested in the local currency. These subsidiaries manage basis exposures at low volumes, based on policies drawn from resolutions of their local boards of directors, and in coordination with the Bank in Israel.

The following table sets forth the actual exposure at Group level, compared with the limits stipulated by the Board of Directors. The data is presented in terms of percentages of the exposed capital:

	Approved limits maximum surplus (or deficit)	**Actual exposure (%)**		
		30 September 2011	30 September 2010	31December 2010
Unlinked	45% - (45%)	**16.2**	9.0	(8.6)
CPI-linked	30% - (30%)	**(13.5)**	(10.0)	8.2
Foreign currency*	15% - (15%)	**(2.7)**	1.0	0.4

* In addition, the Bank and the subsidiaries have limits on the maximum exposure in each currency.

During the first nine months of 2011, the CPI-linked surplus was about 2% of the exposed capital. This rate fluctuated during the period between 17% and (15%). A relatively low volume of capital was channeled to the foreign currency and foreign-currency-linked sector, and therefore the effect of the change in exchange rates did not materially affect pre-tax profit.

Changes in the exchange rate affect the effective tax rate, since the exchange rate differences in respect of the overseas investments are not taken into account in the income basis for calculating the tax provision, unlike exchange rate differences in respect of financing sources, thereby leading to a lack of symmetry in respect of exchange rate differences. Subject to the rates of change in the exchange rates of the various currencies relative to the shekel, and taking into account the volume of the overseas investments, this may have a material effect on the tax provision. The tax exposure in respect of the overseas investments is hedged by the Bank.

At the beginning of 2011, hedging transactions were executed against the expected net income in foreign currency to protect against changes in the exchange rates of the various currencies.

During the first nine months of 2011, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 30 September 2011. The measurement relates to the effect of such changes on the capital of the Bank and includes activity in balance sheet and off-balance sheet instruments:

	US$	€	£	CHF	Yen
	NIS millions				
Increase of 5% in exchange rate	(27)	(5)	9	17	7
Increase of 10% in exchange rate	(64)	(14)	15	25	(15)
Decrease of 5% in exchange rate	21	(8)	(4)	(19)	(14)
Decrease of 10% in exchange rate	39	(2)	(6)	(31)	(24)

3.2 Interest Exposure

The exposure to risk from changes in interest arises from the gap between interest payment dates and/or interest adjustment dates of assets and liabilities, whichever is earlier, in each of the sectors. In order to manage interest risk, the gaps between the assets and liabilities in future periods are examined, and the average durations of the assets, liabilities and capital in each sector are compared. In addition, a measurement is made in each sector of the exposure to changes in interest relating to the potential erosion of the economic value[1] and of the annual accounting profit as a result of a shift in the yield curves in each of the sectors.

As at 30 September 2011, the exposure of economic value in the CPI-linked sector was to a fall in interest rates. The majority of the assets and liabilities in this sector have fixed medium and long-term interest rates. The exposure derives mainly from subordinated notes (used as Tier II capital at Group level) issued for long terms.

In the unlinked shekel sector, the economic value exposure was to a rise in interest rates. In this sector, most of the assets and liabilities are short term or at variable rates of interest. Medium and long-term exposures derive from the securities portfolio and from the off-balance sheet derivatives portfolio.

In the foreign currency sector, the exposure is lower, as most of the activity is at variable interest rates.

The exposure to an unexpected change of 1% in the interest rate for all periods is measured in each of the sectors individually and in all the sectors together.

- The potential erosion of the economic value – the difference between the present value of the assets and liabilities. The present value is calculated after deducting the shekel cash flows on government bond yields and the foreign currency cash flows at LIBOR.
- The potential erosion of the annual accounting profit from a change in the value of transactions assessed at market prices (derivative instruments and trading portfolios), resulting from change in interest rates, as well as balance sheet items (loans and deposits) repayable during the year and rolled over at new interest rates.

[1] The economic value of the capital is defined as the difference between the present value of the assets and liabilities. The present value is calculated after deducting the shekel cash flows on the credit risk-free yield curve and the foreign currency cash flows at LIBOR.

Interest risk is measured and managed in practice on the basis of various behavioral assumptions as to repayment dates of assets and liabilities. The principal assumptions are as follows:

- In the index-linked sector, an estimate regarding early redemption and withdrawals at exit points in savings plans is taken into account. The estimate is derived from previous customer behavior.
- Based on prior experience, there is a long-standing stable credit balance in non-interest bearing current accounts. Accordingly, for the purposes of measuring and managing interest exposure, the Bank's policy is to regard part of the non-interest bearing current account balances as a long-term liability. Periodically, the movement in non-interest bearing current account balances is examined in order to decide how the balances should be allocated.
- Leumi Mortgage Bank – The management of exposures takes into account assumptions regarding early repayments of loans. Assumptions regarding CPI-linked loans at fixed rates of interest rely on a statistical model for predicting early repayments. This statistical model is checked on a regular basis. At the same time, Leumi Mortgage Bank applied the development of an overall repayment model for all linkage sectors in the Bank. The development of the model is expected to finish at the end of 2011 and it will be integrated into Leumi Mortgage Bank's systems during 2012.

3.2.1 Interest exposure and compliance with limitations

The following table presents the exposure to interest changes at the Group level, calculated according to accounting principles. In the first nine months of 2011, the Group was in compliance with all the risk exposure limits set by the Board of Directors.

For further details regarding risk exposure, see Exhibit B in the Management Review.

	30 September 2011			31 December 2010		
	Unlinked	CPI-linked	In or linked to foreign currency	Unlinked	CPI-linked	In or linked to foreign currency
Average duration (in years):						
Assets (1)	**0.88**	**3.63**	**0.41**	0.76	3.14	0.75
Liabilities (1)	**0.84**	**3.20**	**0.41**	0.68	3.56	0.68
Gap in duration (in years)	**0.04**	**0.43**	**-**	0.08	(0.42)	0.07
Difference in internal rate of return (%)	**0.33**	**0.61**	**1.68**	0.60	0.60	1.71

(1) Including forward transactions and options and based on fair value figures of financial instruments.

In calculating the duration of liabilities in the CPI-linked sector, an estimate of early repayments and withdrawals at exit points of savings plans is taken into account, on the basis of a model which estimates anticipated early repayments based on savers' behavior. The duration of liabilities, according to the original cash flow of the savings schemes is longer, reaching 3.22 years, with an internal rate of return (hereinafter: IRR) gap of 0.74%.

The data presented above take into account early repayments of CPI-linked mortgages according to a statistical model that estimates expected repayments on the basis of the borrowers' past behavior. The average duration of assets at the end of the reported period, according to the original cash flow, without taking into account early repayments, is longer, reaching 4.01 years, and an IRR gap of about 0.5%.

Current account balances are presented in Exhibit B to the Management Review, pursuant to directives of the Bank of Israel, as demand deposits for up to one month. However, for the purposes of interest exposure, a certain percentage of the current account balances in shekels and in foreign currency is spread over a repayment period of up to ten years, in accordance with a behavioral model whose basic assumptions are regularly updated. Taking into account the above assumptions, the average duration of liabilities is longer, reaching 0.89 years in unlinked shekels and 0.43 years in foreign currency, with an IRR gap of 1.64% and 2.41%, respectively.

Interest risk is managed on the basis of various behavioral assumptions regarding the original payment dates of the assets and liabilities. With the aim of limiting interest risks, the Board of Directors of the Bank and the boards of directors of the Israel and overseas subsidiaries have approved limits on the maximum potential erosion of the economic value and the accounting profit as a result of a corresponding change of 1% in the interest curves.

The following table presents a summary of the exposures to unforeseen changes in interest rates at the Group level (before tax, in NIS millions)*:

	Potential erosion of economic worth		**Potential erosion of annual profit****	
Effect of a corresponding change of 1% in the interest curve:	**30 September 2011**	31 December 2010	**30 September 2011**	31 December 2010
Actual	**791**	665	**254**	114
Limit	**1,100**	1,100	**500**	500

* In a direction that adversely affects to the Bank.
** The maximum erosion of the annual profit.

During the first nine months of 2011, the potential erosion in the economic value ranged from NIS 817 million to NIS 682 million, and that of the annual profit from NIS 265 million to NIS 97 million.

During the first nine months of 2011, the Group complied with all interest exposure limits prescribed by the Board of Directors.

In addition, monitoring and reporting is carried out regarding the potential interest exposure arising from the Bank's liabilities for pension and severance pay payments to active employees who have yet to retire.

The following table illustrates the impact of potential changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated companies, excluding non-financial items:

The net fair value of financial instruments, before the effect of changes in interest, as at 30 September 2011, in NIS millions:

	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	US$	Euro	Others
Financial assets	**184,233**	**61,397**	**57,990**	**13,555**	**12,841**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**233,914**	**4,746**	**434,172**	**78,767**	**108,010**
Financial liabilities	**152,966**	**52,591**	**78,885**	**18,799**	**9,604**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**245,884**	**12,660**	**416,328**	**73,785**	**112,270**
Net fair value of financial instruments	**19,297**	**892**	**(3,051)**	**(262)**	**(1,023)**

The net fair value of financial instruments after the effect of changes in interest rates, as at 30 September 2011, in NIS millions: (Table 14 - Basel II):

	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
Change in interest rates	Unlinked	CPI-linked	US$	Euro	Others
Immediate corresponding increase of 1%	**18,909**	**1,249**	**(3,035)**	**(243)**	**(1,038)**
Immediate corresponding increase of 0.1%	**19,258**	**928**	**(3,049)**	**(260)**	**(1,025)**
Immediate corresponding decrease of 1%	**19,726**	**476**	**(3,069)**	**(281)**	**(1,009)**

4. Value at Risk (VaR)

The Bank manages the exposure to market risks by various means, as mentioned above, as well as by means of a probability model – the VaR model. According to Bank of Israel directives, the risk measured by the VaR relates to the potential damage from holding all the balance-sheet and off-balance-sheet positions exposed to market risks, including the positions in the trading portfolios.

The VaR measures the expected potential loss resulting from possible changes in market prices. In practice, it measures the expected decrease in the present value of the assets less the liabilities in the given mix in the portfolio's structure, at a given confidence level, over a given future period, according to a given statistical distribution. The VaR is calculated monthly at Group level, and more frequently at the Bank level and for the shekel trading portfolio.

The VaR and the limits in VaR terms are calculated according to the parametric model, with a 99% confidence level, and for a position-holding period of two weeks. The VaR model has a number of weaknesses. The model assumes that the statistical structure of the changes in prices (or interest rates) that is foreseen in the capital market gives an indication of the future behavior of these prices (or interest rates). The parametric VaR model we use also assumes a multivariate normal distribution of the changes in the risk factors. This measurement, by definition, ignores losses that may be incurred over and above the given significance level (the distribution tail). Examination of stress scenarios provides the lacking perspective.

In order to test the validity of the VaR model, the Bank performs daily back-testing, by comparing the actual change in the economic value of the Bank with the estimated change as derived from the VaR model. The tests performed thus far confirm the validity of the model. As stated above, the Bank's VaR is calculated every two weeks with a probability of 99%. After the two-week period, the back-testing process examines the theoretical change in the Bank's value, assuming that the positions do not change and that the only changes are those in the market prices.

During 2011, various adjustments have been made to the method of calculating and back testing in accordance with the Basel II standard.

The following table presents the estimated VaR at Group level in NIS millions:

	VaR at economic value			VaR in mark-to-market portfolios		
	30 September 2011	30 September 2010 *	31 December 2010	**30 September 2011**	30 September 2010 *	31 December 2010
Actual	**138**	232	183	**62**	57	43
The limit	**500**	600	600	**400**	400	400

* According to the previous method of calculation.

During the first nine months of 2011, the VaR of the economic value ranged from NIS 125 million to NIS 178 million.

During the first nine months of 2011, the Group was in compliance with all the VaR limits set by the Board of Directors.

5. Liquidity Risk

Liquidity is defined as the corporation's ability to finance increases in assets and to comply with its payment liabilities. The ability to withstand liquidity risk involves the uncertainty relating to the possibility of raising sources and/or realizing assets unexpectedly within a short period, without incurring a material loss.

In accordance with Bank of Israel directives, the Bank implements an overall liquidity risk management policy in Israeli currency and in foreign currency. The purpose of this policy is to support the achievement of business goals, while evaluating and limiting losses that may arise from exposure to liquidity risks. The principles of the Bank's liquidity management policies have been adopted by the subsidiaries abroad.

Responsibility for managing liquidity risk in units overseas devolves on the units themselves, together with advice, coordination and professional support of the ALM Department in Israel. For every overseas unit of the Bank, the liquidity management policy is approved by the local board of directors. The risk management policy of overseas units is determined in accordance with Group policy and subject to directives of local regulations in every unit. In this framework, limits are set, and compliance with limits is examined in the framework of the market and liquidity risk management committees, both at the units abroad and at the companies in Israel.

The Bank maintains day-to-day monitoring of the liquidity position and liquidity risk indices. Liquidity risk is measured and managed through an internal model, Liquidity at Risk (LAR), whose purpose is to evaluate and monitor the liquid means at the Bank's disposal, under various scenarios, which are examined and updated in line with various market developments. These scenarios relate to different market situations: a normal business scenario and stress scenarios affecting the Bank and the entire banking system.

The liquidity position is examined in each of the scenarios by means of two quantitative indices: the liquidity gap and the liquidity ratio. The principles at the basis of the model propose that, insofar as there are more liquid assets (such as cash, deposits at the Bank of Israel, a realizable bond portfolio and credit, the repayment of which is expected) than there are liabilities that are expected to be realized pursuant to the model, the Bank secures its ability to meet all its liquidity needs.

The rate of change in the balance of deposits and credit for all payment periods, under different scenarios, is established according to various parameters depending on the severity of the scenario. The behavioral functions are defined at the discretion of the business officials, assisted by historical data, taking into account parameters such as the size and nature of the deposit according to which the expected cash flows are calculated.

It should be noted that the stress scenarios are more severe than anything that the Bank has experienced in the past and the assumptions of these scenarios are therefore necessarily based more on the judgment of the senior professional officials at the Bank than on any historical data.

Leumi has prepared a contingency plan as part of its preparations for an extreme scenario, which includes the strategy for managing a liquidity crisis, including the appointment of a management team to be responsible for dealing with the crisis and defining the procedures and steps required for contending therewith.

In addition to the model described above, Leumi operates an additional measurement system for early warning of exceptional and unexpected developments in liquidity risk, as follows:

- As part of the ongoing management of liquidity in Israeli currency and foreign currency, a forecast is made of the daily liquidity situation, using the Bank's existing information systems. At the end of each business day, the gap between the forecast liquidity and the actual liquidity is measured. The spread of the gap is used for updating the model and for improving the quality of the forecasting of the liquidity situation.
- In the foreign currency sector, the rate of long-term assets being financed by short-term liabilities, the "long-short" ratio, is also monitored. This limit is adjusted from time to time according to the circumstances in the market.
- In the Israeli currency and foreign currency sectors, trends in the liquidity position are examined (daily, monthly, etc.) over a protracted period, in order to monitor the developments in deposits of the public, in credit to the public and liquidity in general, as well as measuring the gap risk.

5.1. **Liquidity Status and Compliance with Limits**

As required by the Bank of Israel's Directive No. 342, the Board of Directors has approved the policy for managing liquidity risks and prescribed limits, as follows: the liquidity ratio must be higher than 1 and the liquidity gap must be higher than zero in each of the scenarios during the planned periods of one day, one week and one month.

The following table shows the liquidity gap and liquidity ratio in Israeli currency and foreign currency, in each of the four types of defined scenarios, for a repayment period of one month, as at 30 September 2011 (without movement between sectors*):

	Israeli currency for one month		Foreign currency for one month	
	Gap	Ratio	Gap	Ratio
Scenario/period	NIS billions			
Regular	**49.1**	**16.8**	**9.4**	**2.3**
Statistical	**40.8**	**4.5**	**5.4**	**1.5**
Stress at Leumi	**29.8**	**1.8**	**3.7**	**1.2**
Systemic stress	**34.2**	**2.3**	**9.6**	**1.6**

* Leumi assumes that in stress situations the foreign currency sector, if it has a liquidity surplus, can assist the Israel currency sector and *vice versa*.

The above measurement relates solely to the Bank, and includes a line for support to Leumi Romania amounting to US$ 50 million, and to Leumi UK amounting to £ 120 million and Leumi Mortgage Bank amounting to NIS 300 million.

During the first nine months of 2011, the Group was in compliance with all prescribed limits.

5.2 Draft Bank of Israel amendment to Regulation 342 "Management of Liquidity Risks"

In May 2011, the Bank of Israel published a first draft amendment to Regulation 342 regarding the management of liquidity risks, which has undergone a number of changes and its last version was transferred to the banks in September 2011. The draft represents a milestone in the adoption of the international regulatory directives regarding liquidity, which have been developed in light of the crisis in 2008 and 2009. The purpose in revising the regulation is to begin gradually to adopt the Basel III directives for managing liquidity risks, particularly, the definition of minimum ratios between liquid assets and liabilities which, it is estimated,will materialize within a specified time interval. In particular, this involves the definition of a minimum liquidity ratio for a period of a month (a liquidity coverage ratio - LCR) and the definition of stable funding ratio for a period of a year (a net stable funding ratio - NSFR).

The Bank is examining the implications of this draft regulation and the type of preparations required for its implementation.

6. Credit Risk

For details regarding the exposure to and management of credit risks, see pages 193-208 of the Annual Report for 2010.

Once a year, the Bank’s credit policy statement is updated and approved by the Board of Directors. This document serves as a policy guideline for the Bank's operations in Israel, with the exception of certain areas where there is a Group policy. The Bank's credit policy represents a central pillar in the management of credit and is built on the risk appetite of Leumi Group in the field of credit.

The main principles of the credit policy statement are brought to the attention of the subsidiaries in Israel and abroad. The document serves as a guideline for the credit policy they are to adopt. Each of the subsidiary companies defines an independent credit policy which is approved by its authorized bodies and brought to the attention of its management.

During the second quarter of 2011, the Group credit policy for commercial credit was approved for the first time, outlining commercial credit policy for Bank Leumi in Israel and the overseas units of the Bank in the US, UK, and Romania. The statement is a "master" statement and will serve as a framework for the Bank and its overseas units.

The Bank’s credit policy is based on the dispersal and supervised management of risks. This is reflected, *inter alia*, in the diversification of the Bank’s credit portfolio among the various sectors of the economy and among a large number of borrowers. In its capacity as a central player in financing the Israeli economy, the Bank implements a strategy of involvement in the principal activity sectors of the economy and provides credit to the various types of manufacturing and trading sectors, to the diverse public sector, to private borrowers and to households.

Managing the loan portfolio in the Bank requires, *inter alia*, having a quantitative assessment of the risk level of the borrowers. To achieve this aim, models are built in the Bank with automated systems to support the process of examining a borrower’s risk level, the level of the loss given a borrower's credit loss, the expectancy of the loss and the return required for these risks.

The Bank is in the process of setting up an advanced system for managing the loan portfolio with the aim of upgrading its abilities to control the various risks, particularly various concentration risks, to manage limits over the risk factors in the area of credit, to direct activities, with the objective of improving the ratio of return on risk and to facilitate better pricing of credit risks.

In the context of the Bank's credit policy in Israel, principles and rules have been prescribed in accordance with which the Bank's credit portfolio is to be granted, managed and supervised, with the object of estimating the risk inherent in the portfolio, improving the quality of the portfolio and reducing the risk inherent in its management. These principles and rules relate both to the individual customer and groups of borrowers and to the sectors of the economy and to operating segments.

The Bank's Board of Directors approves the Bank's credit policy and voluntary limits, including the restrictions to the sectors of the economy.

As explained in the Annual Report for 2010, as part of the changes in the risk management structure at Leumi, and the setting up of the Risk Management Division, a Chief Credit Risk Officer was appointed, who reports to the Chief Risk Officer of the Group. The Risk Management Division leads risk management at the portfolio level and, as part of this, the evaluation of the risk profile of the overall credit portfolio and by sub-risk in a forward-looking manner, formulating risk policy, developing and upgrading models for managing and pricing credit risks, and evaluating the risk in the work plan of the business divisions. The business divisions will continue to lead risk management and control at the individual transaction and specific project level, by virtue of their proximity to the customer and the field, and in partnership with the Risk Management Division in real time, mainly in the larger transactions and projects at Bank level.

Allowance for credit losses and classification of problem debts

Among the measures employed by the Bank to manage credit risks is a methodology to locate and identify problem debts that it implements in all lines of business. This methodology includes a structured quarterly work process, pursuant to which a thorough scan is made of the credit portfolio, utilizing several criteria that provide an early warning of the transition of a debt to a problem one. The scanning process ends in summarizing a dynamic list of particularly sensitive customers, which constitutes the basis for locating the Bank's problem debts.

In the Corporate Division, which handles the Bank’s largest customers, as well as in the Commercial Banking Division, which handles middle market business companies, there are also quarterly credit control processes, in which an examination is made of borrowers whose risk rating is better than that which would normally require inclusion in the customer population defined as particularly sensitive, as noted above. Every quarter, a discussion is held in the committee for doubtful debts of the Bank, chaired by the President and CEO, with regard to the quarterly provisions required and the recommendations for the classification of debts as problem. Furthermore, discussions are also held in the committee of the Board of Directors for examining the financial statements, where allowances for credit losses and the classification of problem debts are examined.

The control process and discussions regarding allowances and the classification of problem debts held in the Financial Statements Review Committee of the Board of Directors, ends with the taking of final decisions on classification or the making of a provision, and with reporting thereon to the automated systems and accounting division.

As specified in the Annual Report for 2010, as of 1 January 2011, the Bank operates according to the directive regarding "Measurement and Disclosure of Impaired Debts, Credit Risk and Allowance for Credit Losses". The directive brings the reporting principles on this topic, applicable to banking corporations in Israel, into line with those applicable to banks in the United States and is based, *inter alia*, on generally accepted accounting principles in the US and directives of the US Securities and Exchange Commission relating to banks.

Important points regarding credit risk management

In the third quarter and in view of the economic developments in Israel and the world, the Bank has taken a number of steps to reduce credit risk. The Bank has published directives and temporary instructions in all the lines of business that included tightening the criteria for granting credit, sharpening the controls and placing emphasis on customers with a high degree of sensitivity. In addition, the estimates of stress scenarios and the statistical models for assessing the probability of a failure of borrowers were revised.

In light of the uncertainty with regard to the expected developments in the real estate sector, and in light of the extent of financing provided for this sector in the Bank’s credit portfolio, a cautious approach and constant monitoring are applied in regard to the exposure to the sector.

The Bank operates a constant policy of identifying sensitive borrowers and sectors of the population, maintaining a close and regular supervision over the effects of the erosion and exposures on the relevant borrowers.

The Bank regularly examines and reviews risk ratings and adjusts them to the borrowers' present situation, with particular emphasis on customers that are exposed to certain sectors of the economy, both locally and overseas, as well as having connections to geographical areas that are particularly affected. In addition, the Bank continues to be active in locating and correcting shortcomings in credit documentation and collateral.

For the purpose of managing the Bank's credit portfolio as a whole, there is a Credit Portfolio Management Unit operating out of the risk management division, with the aim of creating transparency in the structure of the credit portfolio in accordance with its risk levels and factors, setting internal limits for the credit portfolio in different segments (such as limits on economic sectors), and examining the impact of new large transactions on the structure of the credit portfolio.
The Unit is engaged in producing tools for evaluating the performance of the Bank's credit portfolio in terms of yield vs. risk, formulating recommendations for the desired structure of the credit portfolio, and recommending the execution of transactions/measures with the aim of improving the portfolio's structure and risks, all this is in order to facilitate active management of the credit portfolio, which will lead to improving the order of priorities with regard to the allocation of capital.

The following table sets forth certain data relating to credit exposures and risks:

1. Exposure and Management of Risks in Credit to the Public

Credit risk exposure by principal types of credit exposure (Table 4(b) – Basel II):

Type of credit exposure	**30 September 2011**	30 September 2010	31 December 2010	**30 September 2011**	30 September 2010	31 December 2010
	Gross credit risk exposure			Average gross credit risk exposure		
	NIS million			NIS million		
Credit	**293,837**	255,734	252,759	**274,519**	251,437	252,255
Debentures	**27,445**	42,810	45,448	**35,139**	42,828	42,935
Others	**14,183**	13,118	12,868	**13,694**	12,849	12,966
Guarantees and liabilities on account of customers	**114,161**	107,425	107,258	**111,137**	100,869	104,158
Transactions in derivative financial instruments	**18,080**	14,435	13,852	**14,981**	11,463	12,194
Total	**467,706**	433,522	432,185	**449,470**	419,446	424,508

Credit risk in accordance with the standardized approach (Table 5 – Basel II)*:

The tables below set forth details of gross credit exposure according to risk weighting, the exposure being distributed by the counterparty, before and after deduction of credit risk in respect of recognized collateral.

Amount of exposure before expenses in respect of credit losses and before deduction of credit risk**

	30 September 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**52,559**	**3,350**	**-**	**303**	**-**	**19**	**-**	**-**	**-**	**56,231**
Debts of public-sector entities	**-**	**1,316**	**-**	**3,222**	**-**	**-**	**3**	**-**	**-**	**4,541**
Debts of banking corporations	**35**	**23,878**	**-**	**4,779**	**-**	**671**	**7**	**-**	**-**	**29,370**
Debts of corporations	**-**	**463**	**-**	**4,748**	**-**	**200,843**	**3,574**	**-**	**-**	**209,628**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**19,670**	**795**	**-**	**-**	**20,465**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**53,428**	**156**	**135**	**-**	**-**	**53,719**
Loans to small businesses	**-**	**-**	**-**	**-**	**17,283**	**267**	**145**	**-**	**-**	**17,695**
Housing mortgages	**-**	**-**	**38,440**	**-**	**17,895**	**4,159**	**182**	**-**	**-**	**60,676**
Securitization	**-**	**1,021**	**-**	**79**	**-**	**46**	**-**	**-**	**52**	**1,198**
Other assets	**2,648**	**-**	**-**	**-**	**-**	**11,116**	**419**	**-**	**-**	**14,183**
Total	**55,242**	**30,028**	**38,440**	**13,131**	**88,606**	**236,947**	**5,260**	**-**	**52**	**467,706**

Amount of exposure after expenses in respect of credit losses and before deduction of credit risk**

	30 September 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**52,561**	**3,350**	**-**	**303**	**-**	**19**	**-**	**-**	**-**	**56,233**
Debts of public-sector entities	**-**	**1,315**	**-**	**3,220**	**-**	**-**	**3**	**-**	**-**	**4,538**
Debts of banking corporations	**34**	**23,877**	**-**	**4,779**	**-**	**670**	**7**	**-**	**-**	**29,367**
Debts of corporations	**-**	**463**	**-**	**4,748**	**-**	**198,530**	**3,518**	**-**	**-**	**207,259**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**19,486**	**759**	**-**	**-**	**20,245**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**53,050**	**120**	**133**	**-**	**-**	**53,303**
Loans to small businesses	**-**	**-**	**-**	**-**	**17,129**	**124**	**144**	**-**	**-**	**17,397**
Housing mortgages	**-**	**-**	**38,356**	**-**	**17,843**	**3,753**	**170**	**-**	**-**	**60,122**
Securitization	**-**	**1,021**	**-**	**79**	**-**	**46**	**-**	**-**	**52**	**1,198**
Other assets	**2,648**	**-**	**-**	**-**	**-**	**11,115**	**419**	**-**	**-**	**14,182**
Total	**55,243**	**30,026**	**38,356**	**13,129**	**88,022**	**233,863**	**5,153**	**-**	**52**	**463,844**

Amount of exposure after expenses in respect of credit losses and after deduction of credit risk**

	30 September 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**53,084**	**3,419**	**-**	**303**	**-**	**18**	**-**	**-**	**-**	**56,824**
Debts of public-sector entities	**-**	**806**	**-**	**3,218**	**-**	**-**	**3**	**-**	**-**	**4,027**
Debts of banking corporations	**34**	**24,005**	**-**	**4,988**	**-**	**614**	**7**	**-**	**-**	**29,648**
Debts of corporations	**-**	**463**	**-**	**4,748**	**-**	**188,259**	**3,365**	**-**	**-**	**196,835**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**18,650**	**759**	**-**	**-**	**19,409**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**50,625**	**120**	**125**	**-**	**-**	**50,870**
Loans to small businesses	**-**	**-**	**-**	**-**	**15,148**	**120**	**137**	**-**	**-**	**15,405**
Housing mortgages	**-**	**-**	**38,350**	**-**	**17,750**	**3,741**	**170**	**-**	**-**	**60,011**
Securitization	**-**	**1,022**	**-**	**78**	**-**	**46**	**-**	**-**	**52**	**1,198**
Other assets	**2,648**	**-**	**-**	**-**	**-**	**11,115**	**419**	**-**	**-**	**14,182**
Total	**55,766**	**29,715**	**38,350**	**13,335**	**83,523**	**222,683**	**4,985**	**-**	**52**	**448,409**

(1) Before converting to credit of off-balance sheet components, as required in the Basel II Directives (e.g. weighting of unutilized facilities).

* For details, see Tables 4(b) and 4(d) below.

** The deduction of credit risk expresses the final classification of the risk weighting between the various rates.

Amount of exposure after expenses in respect of credit losses and before deduction of credit risk**

	30 September 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	56,397	2,565	-	242	-	563	-	-	-	59,767
Debts of public-sector entities	-	3,560	-	3,223	-	-	34	-	-	6,817
Debts of banking corporations	-	19,753	-	2,546	-	1,578	29	-	-	23,906
Debts of corporations	-	835	-	3,823	-	172,678	10,600	-	-	187,936
Debts collateralized by commercial real estate	-	-	-	-	-	17,240	1,183	-	-	18,423
Retail exposures to individuals	-	-	-	-	50,546	592	1,039	-	-	52,177
Loans to small businesses	-	-	-	-	15,090	128	833	-	-	16,051
Housing mortgages	-	-	36,557	-	16,482	840	209	-	-	54,088
Securitization	-	758	-	149	-	147	-	-	185	1,239
Other assets	2,699	-	-	-	-	10,060	359	-	-	13,118
Total	59,096	27,471	36,557	9,983	82,118	203,826	14,286	-	185	433,522

Amount of exposure after expenses in respect of expenses in respect of credit losses and after deduction of credit risk**

	30 September 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	58,735	2,565	-	241	-	564	-	-	-	62,105
Debts of public-sector entities	-	1,297	-	3,192	-	-	27	-	-	4,516
Debts of banking corporations	-	18,940	-	3,655	-	1,578	29	-	-	24,202
Debts of corporations	-	835	-	3,823	-	162,319	10,373	-	-	177,350
Debts collateralized by commercial real estate	-	-	-	-	-	16,206	1,171	-	-	17,377
Retail exposures to individuals	-	-	-	-	48,089	591	976	-	-	49,656
Loans to small businesses	-	-	-	-	13,568	127	763	-	-	14,458
Housing mortgages	-	-	36,553	-	16,371	839	208	-	-	53,971
Securitization	-	758	-	149	-	147	-	-	185	1,239
Other assets	2,699	-	-	-	-	10,060	359	-	-	13,118
Total	61,434	24,395	36,553	11,060	78,028	192,431	13,906	-	185	417,992

(1) Before conversion to credit of off-balance sheet components as required by the Basel II directives (e.g., the weighting of unutilized facilities).

* See summary in Tables 4(b) and 4(d) below.

** The deduction of credit risk reflects the classification of the final weight of the risk between the various rates.

Amount of exposure after expenses in respect of credit losses and before deduction of credit risk**

	31 December 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	47,976	2,805	-	231	-	184	-	-	-	51,196
Debts of public-sector entities	-	3,481	-	3,307	-	-	20	-	-	6,808
Debts of banking corporations	-	20,095	-	3,973	-	554	11	-	-	24,633
Debts of corporations	-	848	-	6,286	-	172,485	9,514	-	-	189,133
Debts collateralized by commercial real estate	-	-	-	-	-	18,880	1,036	-	-	19,916
Retail exposures to individuals	-	-	-	-	51,284	124	905	-	-	52,313
Loans to small businesses	-	-	-	-	15,466	115	664	-	-	16,245
Housing mortgages	-	-	38,257	-	17,749	1,920	210	-	-	58,136
Securitization	-	502	-	110	-	111	-	-	214	937
Other assets	2,098	-	-	-	-	10,402	368	-	-	12,868
Total	50,074	27,731	38,257	13,907	84,499	204,775	12,728	-	214	432,185

Amount of exposure after expenses in respect of credit losses and after deduction of credit risk**

	31 December 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure
	NIS millions									
Sovereign debts	50,271	2,816	-	230	-	184	-	-	-	53,501
Debts of public-sector entities	-	1,215	-	3,299	-	-	20	-	-	4,534
Debts of banking corporations	-	20,284	-	4,087	-	554	11	-	-	24,936
Debts of corporations	-	848	-	6,286	-	161,954	9,058	-	-	178,146
Debts collateralized by commercial real estate	-	-	-	-	-	17,794	1,021	-	-	18,815
Retail exposures to individuals	-	-	-	-	48,617	124	832	-	-	49,573
Loans to small businesses	-	-	-	-	13,802	113	585	-	-	14,500
Housing mortgages	-	-	38,250	-	17,642	1,910	207	-	-	58,009
Securitization	-	502	-	110	-	111	-	-	214	937
Other assets	2,098	-	-	-	-	10,402	368	-	-	12,868
Total	52,369	25,665	38,250	14,012	80,061	193,146	12,102	-	214	415,819

Credit risk exposure by counterparty and by main types of credit exposure – (Table 4(d) – Basel II):

	30 September 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	**41,710**	**14,268**	**-**	**197**	**56**	**56,231**
Debts of public-sector entities	**3,056**	**1,340**	**-**	**145**	**-**	**4,541**
Debts of banking corporations	**11,495**	**6,019**	**-**	**1,856**	**10,000**	**29,370**
Debts of corporations	**121,715**	**4,620**	**-**	**75,341**	**7,952**	**209,628**
Debts collateralized by commercial real estate	**18,782**	**-**	**-**	**1,683**	**-**	**20,465**
Retail exposures to individuals	**26,833**	**-**	**-**	**26,814**	**72**	**53,719**
Loans to small businesses	**13,655**	**-**	**-**	**4,040**	**-**	**17,695**
Housing mortgages	**56,591**	**-**	**-**	**4,085**	**-**	**60,676**
Securitization	**-**	**1,198**	**-**	**-**	**-**	**1,198**
Other assets	**-**	**-**	**14,183**	**-**	**-**	**14,183**
Total credit risk	**293,837**	**27,445**	**14,183**	**114,161**	**18,080**	**467,706**

	30 September 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	31,040	25,770	-	2,957	-	59,767
Debts of public-sector entities	3,090	3,571	-	156	-	6,817
Debts of banking corporations	7,684	6,723	-	1,747	7,752	23,906
Debts of corporations	110,001	5,507	-	65,745	6,683	187,936
Debts collateralized by commercial real estate	17,055	-	-	1,368	-	18,423
Retail exposures to individuals	25,594	-	-	26,583	-	52,177
Loans to small businesses	12,268	-	-	3,783	-	16,051
Housing mortgages	49,002	-	-	5,086	-	54,088
Securitization	-	1,239	-	-	-	1,239
Other assets	-	-	13,118	-	-	13,118
Total credit risk	255,734	42,810	13,118	107,452	14,435	433,522

	31 December 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	20,079	28,655	-	2,462	-	51,196
Debts of public-sector entities	3,175	3,507	-	126	-	6,808
Debts of banking corporations	8,719	6,725	-	1,687	7,502	24,633
Debts of corporations	111,842	5,624	-	65,364	6,303	189,133
Debts collateralized by commercial real estate	18,406	-	-	1,510	-	19,916
Retail exposures to individuals	26,631	-	-	25,635	47	52,313
Loans to small businesses	12,637	-	-	3,608	-	16,245
Housing mortgages	51,270	-	-	6,866	-	58,136
Securitization	-	937	-	-	-	937
Other assets	-	-	12,868	-	-	12,868
Total credit risk	252,759	45,448	12,868	107,258	13,852	432,185

Distribution of portfolio by repayment period and by main types of credit exposure – (Table 4(e) – Basel II):

	30 September 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	**161,718**	**7,795**	**2,961**	**68,305**	**7,235**	**248,014**
From one to five years	**61,583**	**10,599**	**648**	**31,373**	**2,439**	**106,642**
More than five years	**70,394**	**9,051**	**2,025**	**14,483**	**7,037**	**102,990**
Non-monetary items	**142**	**-**	**8,549**	**-**	**1,369**	**10,060**
Total	**293,837**	**27,445**	**14,183**	**114,161**	**18,080**	**467,706**

	30 September 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	137,222	15,804	2,777	67,030	5,888	228,721
From one to five years	46,322	13,940	690	26,459	2,146	89,557
More than five years	72,177	13,066	1,390	13,936	4,567	105,136
Non-monetary items	13	-	8,261	-	1,834	10,108
Total	255,734	42,810	13,188	107,425	14,435	433,522

	31 December 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	127,782	18,526	2,267	61,944	6,060	216,579
From one to five years	61,141	14,763	655	30,091	2,003	108,653
More than five years	63,816	12,159	1,355	15,223	3,714	96,267
Non-monetary items	20	-	8,591	-	2,075	10,686
Total	252,759	45,448	12,868	107,258	13,852	432,185

Reduction of credit risk (Table 7 – Basel II):

	30 September 2011					
	Gross credit exposure before allowances for credit losses	Gross credit exposure after allowance for credit losses	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions					
Sovereign debts	56,231	56,233	-	592	(1)	56,824
Debts of public-sector entities	4,541	4,538	(509)	-	(2)	4,027
Debts of banking corporations	29,370	29,367	(56)	337	-	29,648
Debts of corporations	209,628	207,259	(315)	-	(10,109)	196,835
Debts collateralized by commercial real estate	20,465	20,245	(31)	-	(805)	19,409
Retail exposures to individuals	53,719	53,303	(3)	-	(2,430)	50,870
Loans to small businesses	17,695	17,397	(12)	-	(1,980)	15,405
Housing mortgages	60,676	60,122	(3)	-	(108)	60,011
Securitization	1,198	1,198	-	-	-	1,198
Other assets	14,183	14,182	-	-	-	14,182
Total	467,706	463,844	(929)	929	(15,435)	448,409

	30 September 2010				
	Gross credit exposure	Total exposure covered by guarantees and deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions				
Sovereign debts	59,767	-	2,338	-	62,105
Debts of public-sector entities	6,817	(2,263)	-	(38)	4,516
Debts of banking corporations	23,906	-	296	-	24,202
Debts of corporations	187,936	(340)	-	(10,246)	177,350
Debts collateralized by commercial real estate	18,423	-	-	(1,046)	17,377
Retail exposures to individuals	52,177	(3)	-	(2,518)	49,656
Loans to small businesses	16,051	(26)	-	(1,567)	14,458
Housing mortgages	54,088	(2)	-	(115)	53,971
Securitization	1,239	-	-	-	1,239
Other assets	13,118	-	-	-	13,118
Total	433,522	(2,634)	2,634	(15,530)	417,992

	31 December 2010				
	Gross credit exposure	Total exposure covered by guarantees and deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions				
Sovereign debts	51,196	-	2,305	-	53,501
Debts of public-sector entities	6,808	(2,266)	-	(8)	4,534
Debts of banking corporations	24,633	-	303	-	24,936
Debts of corporations	189,133	(313)	-	(10,674)	178,146
Debts collateralized by commercial real estate	19,916	(2)	-	(1,099)	18,815
Retail exposures to individuals	52,313	(3)	-	(2,737)	49,573
Loans to small businesses	16,245	(22)	-	(1,723)	14,500
Housing mortgages	58,136	(2)	-	(125)	58,009
Securitization	937	-	-	-	937
Other assets	12,868	-	-	-	12,868
Total	432,185	(2,608)	2,608	(16,366)	415,819

Below are counterparty credit risk balances (Table 8 – Basel II):

	30 September 2011				
	Par value balances	Gross positive fair value of contracts	Set-off benefits	Eligible collateral	Net credit exposure of derivatives
	NIS millions				
Interest contracts	**252,069**	**7,867**	**-**	**-**	**7,867**
Foreign currency contracts	**228,221**	**8,370**	**-**	**-**	**8,370**
Contracts in respect of shares	**17,810**	**1,369**	**-**	**-**	**1,369**
Commodities and other contracts	**4,005**	**474**	**-**	**-**	**474**
Credit derivative transactions	**-**	**-**	**-**	**-**	**-**
Total	**502,105**	**18,080**	**-**	**-**	**18,080**

	30 September 2010				
	Par value balances	Gross positive fair value of contracts	Set-off benefits	Eligible collateral	Net credit exposure of derivatives
	NIS millions				
Interest contracts	172,224	4,805	-	-	4,805
Foreign currency contracts	212,471	7,322	-	-	7,322
Contracts in respect of shares	14,050	1,809	-	-	1,809
Commodities and other contracts	2,190	499	-	-	499
Credit derivative transactions	2,708	-	-	-	-
Total	403,643	14,435	-	-	14,435

	31 December 2010				
	Par value balances	Gross positive fair value of contracts	Set-off benefits	Eligible collateral	Net credit exposure of derivatives
	NIS millions				
Interest contracts	172,027	4,039	-	-	4,039
Foreign currency contracts	227,274	7,534	-	-	7,534
Contracts in respect of shares	14,739	2,044	-	-	2,044
Commodities and other contracts	1,530	235	-	-	235
Credit derivative transactions	2,334	-	-	-	-
Total	417,904	13,852	-	-	13,852

2. The following table presents the credit exposure with respect to the fair value of derivatives, by counterparty to the contract (appears under Other Assets as at 30 September 2011):

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Overseas Banks	NIS millions							
Eurozone(1)	**1,761**	**105**	**134**	**-**	**-**	**-**	**2**	**2,002**
United Kingdom (2)	**822**	**32**	**192**	**19**	**10**	**-**	**2**	**1,077**
United States	**1,143**	**290**	**5**	**3**	**186**	**-**	**-**	**1,627**
Other	**307**	**-**	**34**	**-**	**-**	**-**	**2**	**343**
Total overseas banks	**4,033**	**427**	**365**	**22**	**196**	**-**	**6**	**5,049**
Israeli banks (3)	**-**	**9**	**1,096**	**608**	**-**	**-**	**9**	**1,722**

Corporate customers by branch of the economy	
Financial services(4)	**2,572**
Industry(5)	**1,485**
Construction and real estate	**167**
Transportation and storage	**60**
Trade	**90**
Electricity and water	**6**
Business services	**14**
Private individuals	**42**
Communications and computer services	**65**
Others	**32**
Total corporate customers	**4,533**
Others*	**192**
Total exposure	**11,496**

* Reverse transactions carried out by the customers and offset for the purpose of risk according to the branches of the economy.

(1) This amount includes transactions in 4 countries.
(2) This amount includes transactions with 8 banks.
(3) This amount includes transactions with 8 banks.
(4) This amount includes transactions with 422 customers, where the highest amount for a single customer is NIS 379 million.
(5) This amount includes transactions with 281 customers, where the highest amount for a single customer is NIS 1,040 million.

3. Credit exposure to overseas financial institutions

The following table sets out the credit exposure to overseas financial institutions [(1)]:

	As at 30 September 2011			
	Balance sheet credit risk [(2)]	Securities [(3)]	Current off-balance sheet credit risk [(4)]	Current credit exposure
	NIS millions			
External credit rating[(5)]				
AAA to AA-	**10,603**	**4,093**	**580**	**15,276**
A+ to A-	**3,510**	**4,462**	**104**	**8,076**
BBB+ to BBB-	**319**	**292**	**26**	**637**
BB+ to B-	**134**	**74**	**18**	**226**
Below B-	**34**	**21**	**68**	**123**
Unrated	**1,117**	**225**	**152**	**1,494**
Total current credit exposure to overseas financial institutions	**15,717**	**9,167**	**948**	**25,832**
Problem loan balances, net	**7**	**346**	**-**	**353**

	As at 31 December 2010 (6)			
	Balance sheet credit risk [(2)]	Securities [(3)]	Current off-balance sheet credit risk [(4)]	Current credit exposure
	NIS millions			
External credit rating [(5)]				
AAA to AA–	8,504	4,717	591	13,812
A+ to A–	2,191	5,738	120	8,049
BBB+ to BBB-	16	316	1	333
BB+ to B–	190	79	18	287
Below B-	-	-	-	-
Unrated	948	87	86	1,121
Total current credit exposure to foreign financial institutions	11,849	10,937	816	23,602
Problem debt balances	6	-	-	6

(1) Overseas financial institutions include: banks, insurance companies and institutional bodies.
(2) Deposits in banks, credit to the public, securities that were borrowed or purchased in the context of buy-back agreements and other assets in respect of derivatives (fair value of derivatives)**.**
(3) Including subordinated bank debentures, whose fair value, as at 30 September 2011, was NIS 2,250 million, and as at 31 December 2010, was NIS 2,000 million.
(4) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives.)
(5) Since 2010, the Bank has used the ratings of the Moody’s agency only to rate foreign financial institutions to which there is credit exposure.
(6) The credit exposure is stated after deducting of specific allowances for doubtful debts.

General notes:

a. Credit exposures do not include investments in asset-backed securities (see the details in the note on securities).
b. Some of the banks have received government support of various types, including direct investments in the bank's capital, government guarantees of certain asset portfolios of the banks, guarantees enabling the banks to raise sources of financing, etc.
c. For further information regarding the composition of the credit exposure in respect of derivatives vis-à-vis banks and broker/dealers (local and overseas), see note 7 to the Financial Statements.

Credit exposure to overseas financial institutions refers to commercial banks, bank holding companies, investment banks, insurance companies and institutional bodies.

Exposure to overseas banks is divided as follows: United States 40%, Europe (Germany, France, Switzerland, Spain and the Benelux countries) 27%, United Kingdom 22%, and other countries 11%.

Exposure includes deposits in foreign banks, some 93% of which are short-term deposits of up to one week, and debentures, usually for a period of up to five years. Against the backdrop of the crisis in the financial markets, and the weakening of banks' financial strength, the Bank closely monitors the condition of banks throughout the world. During 2009 and 2010, the list of banks with which the Bank and its overseas subsidiaries deposit foreign currency liquidity balances was reduced significantly, and thus the extent of the exposure to them was reduced. From 2008 to 2011, exposure to debentures of banks and overseas financial institutions was significantly reduced.

The Board of Directors of the Bank has determined a maximum exposure for each bank according to its strength and its total capital with the aim of preventing over-centralization.

Additional details regarding investments in securities, mainly debentures of overseas banks, are presented on page 60.

Management of the exposure to and credit lines of overseas financial institutions takes into consideration, *inter alia*:

– Their size, as reflected, *inter alia*, by the size of their capital.
– Their strength, as reflected in capital adequacy ratios (particularly Tier I capital).
– The market's valuation, as reflected in the market value of their shares and their risk, as estimated with the help of their credit derivatives (CDS).
– The internal rating as computed in a unit which is independent of the business entity.
– The ratings assigned to them by the international rating agencies.
– The financial strength of the country where the bank's center of activity is located.
– Additional considerations, such as the level of support, including direct investment in the banks' capital by governments, for the purpose of insuring the stability of these banks and of other banks in their countries.
– The policy for managing the exposure to overseas financial institutions includes, *inter alia*, limits on the amounts of exposure at bank and country level.

4. Exposure to foreign countries*:

The exposure to foreign countries risk according to final risk is distributed among geographical regions and countries, the main exposure being to countries in Western Europe and in North America. For further details regarding exposure to countries overseas, see below, Exhibit D in the Management Review. (Table 4(c) Basel II):

	30 September 2011		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
USA	**22,422**	**13,767**	**36,189**
UK	**9,487**	**10,303**	**19,790**
France	**2,743**	**3,196**	**5,939**
Switzerland	**1,899**	**1,955**	**3,854**
Germany	**4,071**	**3,722**	**7,793**
Belgium	**1,017**	**424**	**1,441**
Italy	**544**	**16**	**560**
The Netherlands	**3,726**	**361**	**4,087**
Others	**8,067**	**1,931**	**9,998**
Total	**53,976**	**35,675**	**89,651**

	31 December 2010		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
USA	23,677	11,743	35,420
UK	8,589	7,782	16,371
France	3,766	3,226	6,992
Germany	4,219	4,835	9,054
Switzerland	2,007	2,314	4,321
Others	12,819	2,850	15,669
Total	55,077	32,750	87,827

* In connection with exposure to foreign countries, see also Exhibit D.

The following table presents the exposure to countries according to the credit rating of the countries as rated by the World Bank, in NIS millions as at 30 September 2011:

Rating	Balance sheet exposure	Off-balance-sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which, problem commercial credit risk
OECD countries with high income	**49,906**	**34,530**	**84,436**	**94.1**	**1,423**
High-income countries	**1,328**	**536**	**1,864**	**2.1**	**1**
Countries with mid-high income	**2,475**	**533**	**3,008**	**3.4**	**531**
Countries with mid-low income	**258**	**76**	**334**	**0.4**	**1**
Countries with low income	**9**	**-**	**9**	**0.0**	**-**
Total	**53,976**	**35,675**	**89,651**	**100**	**1,956**

The amount of exposure to countries with liquidity problems as defined by the Bank of Israel (countries which receive financial aid from the IMF or whose obligations are rated with a credit rating of CCC or below) totals NIS 1,561 million and relates to 14 countries.

The countries are rated according to national income per capita as follows:

High income - exceeding US$ 12,276 per capita.
Medium-high income - from US$ 3,976 to US$ 12,275 per capita.
Medium-low income - from US$ 1,006 to US$ 3,975 per capita.
Low income – up to US$ 1,005 per capita.

Following are the names of the principal countries in each of the categories:

a. OECD countries, including: United States, Italy, Australia, Austria, Ireland, Belgium, Canada, the Czech Republic, Denmark, Finland, Israel, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, Slovenia, the Netherlands, Sweden, Poland, Germany and Korea.

b. Countries with high income:

   Cyprus, Hong Kong, Monaco, Singapore, Cayman Islands and Croatia

c. Countries with mid-high income:

   Argentina, Brazil, Bulgaria, Chile, Mexico, Panama, Romania, Russia, South Africa, Turkey, Venezuela, Uruguay, Columbia, Peru

d. Countries with mid-low income:

   China, Ecuador, Egypt, India, Jordan, Paraguay, the Philippines, Thailand, the Ukraine

e. Countries with low income:

   A large number of the African countries, Haiti, Nepal

Exposure to certain foreign countries:

	30 September 2011				
	Credit to the public	Bonds – Banks and others	Bank deposits	Other	Total
Country	NIS million				
Italy	**45**	**(1) 459**	**40**	**16**	**560**
Ireland	**2**	**49**	**-**	**-**	**51**
Greece	**8**	**-**	**-**	**1**	**9**
Spain	**3**	**(2) 455**	**19**	**27**	**504**
Total	**58**	**963**	**59**	**44**	**1,124**

Portugal – the Group has no exposure.

(1) Of which, NIS 324 million in Banca Intesa.
(2) Most of the exposure to Spain is to Santander Bank, the majority of whose revenues are from sources outside of Spain.

7. Operating and Legal Risks

In the framework of the Risk Management Division, an Operational Risk Unit was established to be responsible for planning, upkeep and ongoing development of a framework for managing operating risk in the Group.

Operational Risk Management is achieved by three lines of defense:

- The business units – managements and employees of business lines (risk owners) – responsible for the identification and management of risks in their areas of operations. In each division, a function is set up to lead the operating risk management process, and is responsible for building and retaining a framework for action in its division.
- Operating risk management division – an independent function for the management of operating risk in the risk management division, responsible for planning, maintenance and development of the working framework for operating risk in the Bank, and for independent reporting to the Board of Directors and management.
- Internal audit

The operating risk management is supervised and controlled by the Board of Directors and the management, including via the Risk Management Committee of the Board of Directors. The management is responsible for managing the risks and does so, *inter alia*, by a senior risk committee (comprised of all members of management) and a senior operating risk committee headed by the Chief Risk Manager. In addition, there is a permanent forum of coordinators on the topic of operating risks in the divisions, for drawing conclusions from failure events and expanding knowledge on the topics of operating risks. There are also *ad hoc* forums for core issues related to specific risks and the formulation of the best ways of reducing them.

In subsidiaries in Israel and abroad, the operating risks are supervised and controlled by their boards of directors, management and risk management committees. Permanent forums are held for draw conclusions from occurrences of failure and for clarifying issues connected to risks particular to each of the companies.

See pages 222-227 of the 2010 Annual Report for details of operational and legal risks.

8. Stress scenarios

From time to time, the global and domestic markets are subject to shocks. The VaR or other statistical models do not provide reliable information regarding losses that may occur under extreme market conditions. The major tool for handling these limitations, for proper risk management, is the execution of stress tests. These include all the material risk factors to which the Bank is exposed and represent a part of the ICAAP process described on page 243 of the Annual Report.

Stress tests at Leumi are devised by the Stress Tests Committee headed by the Chief Risk Manager. The Committee is responsible for the periodic definition of the scenarios, their update and the treatment of the implications of the scenarios for the purpose of managing the risks. Generally speaking, the Committee meets at least once a quarter and, if necessary, more frequently. The set of stress scenarios includes reference to aspects of market risks, credit risks and operating risks, and includes scenarios that combine all various types of risk. In the Committee's meetings, scenarios are examined and updated in accordance with developments and different assessments.

The Committee is comprised of representatives of various divisions specializing in the management of various risks and also representing the business side. If necessary, the Committee makes use of opinions of additional experts for purposes of assessing specific risks that are not within the direct expertise of members of the Committee.

In order to ensure the Bank's survival as a going concern, continuing to conduct its business, even in the event of serious but reasonable stress scenarios, the Bank verifies that the minimum capital adequacy ratio will not be less than the minimum required by the Supervisor of Banks (presently, 9%) at any moment in time during a stress scenario, and verifies its compliance also with other, more stringent, ratios defined as part of the Group risk appetite.

These requirements exist for all stress scenarios examined by the Group, particularly the most serious scenario, including a significant worsening in non-banking indices and a marked rise in allowances for credit losses, the collapse of a foreign bank to which the Group is materially exposed, the collapse of a group of borrowers (as defined in Proper Conduct of Banking Business Directive No. 311), with the "drying up" of the domestic and global bond market.

Risk Factor Table

There were no changes to the Table of Risk Factors compared with the table appearing on page 229 of the 2010 Annual Report.

Linkage Status and Liquidity Status

Linkage Status

The following sets out the linkage balance sheet status, as shown in note 5 to the Financial Statements:

The following table sets out the linkage balance sheet status:

	As at 30 September 2011			As at 31 December 2010		
	Unlinked	CPI-linked	Foreign currency (2)	Unlinked	CPI-linked	Foreign currency (2)
	NIS millions					
Total assets (1)	**191,479**	**59,883**	**116,496**	170,963	59,655	105,567
Total liabilities (1)	**170,248**	**62,199**	**120,819**	153,778	58,803	108,469
Total exposure in sector	**21,231**	**(2,316)**	**(4,323)**(3)	17,185	852	(2,902) (3)

(1) Including forward transactions and options.
(2) Including foreign-currency-linked.
(3) The foreign currency short position derives mainly from a hedging transaction against the tax exposure in respect of the foreign investments, and also in respect of the hedging of future foreign currency earnings.

For the purposes of day-to-day management and reporting, certain changes have been made that take into account the Bank's economic approach to basis risk, in contrast to the accounting approach. Basis exposure is calculated using the economic approach set forth in the chapter on “Risk Exposure and Risk Management”.

Liquidity Position and Raising Funds by the Bank

The volume of the banking system’s balances with the Bank of Israel (current account balances and monetary deposits) at the end of September 2011 stood at some NIS 127 billion, compared to some NIS 100 billion at the end of December 2010.

In the first nine months of 2011, holdings by the public of Makam (T-bills) declined by NIS 15.5 billion to a level of some NIS 119 billion at the end of September 2011. Purchases of foreign currency of the Bank of Israel from the system in the period amounted to some $4.6 billion.

The average volume of the balances of the banking system (current accounts and monetary deposits in the Bank of Israel) in the third quarter stood at some NIS 130 billion, compared with an average of some NIS 119 billion in the second quarter and an average of some NIS 101 billion in the first quarter of 2011.

In the third quarter, holdings by the public of Makam (T-bills) declined by some NIS 3.3 billion and purchases of foreign currency of the Bank of Israel from the system amounted to some $225 million.

The total balances of Leumi in the Bank of Israel (current accounts and monetary deposits) at the end of September 2011 stood at some NIS 38 billion, compared with some NIS 30 billion at the end of June 2011 and some NIS 17 billion at the end of December 2010.

The structure of the Bank's assets and liabilities continues to indicate a high level of liquidity. This is the result of a deliberate policy of raising stable and diversified sources, while placing importance on the raising of deposits from a large number of customers, for varying periods, including long term.

Leumi monitors, on an ongoing basis, its liquidity status and the indices that are intended to alert it to changes in the liquidity position, *inter alia*, by using an internal model developed at the Bank pursuant to a directive of the Bank of Israel. The various assumptions forming the basis of the model are examined and updated regularly according to developments in the major relevant parameters.

At 30 September 2011, the Bank held cash balances and deposits in banks (excluding Leumi Mortgage Bank) amounting to some NIS 54 billion, compared with some NIS 30 billion at the end of 2010, an increase of some 79.0% (most of the increase was recorded in the first half of the year).

The Bank also has a securities portfolio of some NIS 32 billion, which is invested mainly in Israeli government debentures, foreign government debentures, and debentures of foreign banks.

Around 37% of the financial assets in the Bank are deposited in banks and/or invested in securities, a rate similar to 31 December 2010.

At the end of 30 September 2011, the balance of total credit to the public was some NIS 149.7 billion, compared to some NIS 143.4 billion at the end of 2010, an increase of some 4.4%. The increase was recorded mainly in the unlinked shekel sectors.

At the end of September 2011, the balance of deposits of the public, including subordinated notes and capital notes, amounted to some NIS 255.7 billion, compared to some NIS 239.8 billion at the end of 2010, an increase of 6.6%. The increase in the balance includes an amount of NIS 1.4 billion of subordinated notes which was raised in September 2011 through Leumi Finance.
In addition, in November 2011, a total of some NIS 2.0 billion was raised as noted above.

There was an increase in shekel deposits amounting to NIS 12.8 billion, or 7.9%, and foreign currency deposits amounting to some NIS 3.1 billion, or 4.4% (In dollar terms, there was no material change.).

During the period under review, the volume of customers' off-balance sheet monetary assets at the Bank fell by some NIS 28.3 billion. After canceling out the effect of the decrease in market value, a positive increment amounting to some NIS 17.0 billion was recorded.

Basel Directives

The figures in Leumi's financial statements, the calculation of risk assets, and the capital adequacy ratio as of 30 September 2011 are calculated and reported according to instructions required in accordance with the standardized approach of Basel II. The capital adequacy ratio of 13.75% reported by Leumi as at 30 September 2011, according to assessments by the Group, covers the capital required in respect of the First Pillar and the Second Pillar, including stress scenarios used by the Group in its internal assessments.

Leumi Group implements the requirements of the directives with emphasis on the following:

1. Enhanced corporate governance, internal control, audit and compliance.

2. Adopting and carrying out organizational and procedural changes required in the area of credit, market and operational risk management.

3. Establishing, assimilating and integrating the ICAAP (Internal Capital Adequacy Assessment Process) as a central tool for capital planning and work plan.

4. Segmentation of lines of business in accordance with business activity and the allocation of capital required for each of the lines of business.

5. Changing and upgrading policy and procedures in the organization together with business cooperation between lines of business and synchronizing the different activities.

6. Creating a clear link between the risk profile and quality of risk management in the Group, and the risk appetite, business strategy, and capital requirements.

7. Changed thinking and business culture in the transfer to the effective management of the credit portfolio, the pricing of risks, and the measurement of performance on a risk-adjusted basis by the Bank and for each line of business.

8. Upgrading the activity of product managers and activities for strengthening the management and monitoring of risks in these products.

9. Data collection and the establishment of databases required for the assessment of risk variables for every activity, and the combination of these databases into an integrated system while synchronizing the various systems and databases.

10. Purchase and upgrading of risk management and capital calculation systems, and linking them to existing systems. These systems significantly upgrade and improve the Bank's ability with regard to effective and risk-focused risk management.

11. Validation of models for assessing risks and pricing transactions.

12. Surveying and mapping of operational risks as part of a program to implement the standardized approach also for operational risks (allocating revenue according to 8 lines of business under Basel II).

13. Improving the strength of the Bank as a result of adopting, developing and formulating advanced methodologies for identifying and evaluating risks.

14. Improving profitability as a result of raising the quality of risk management and measurement of the profitability of lines of business also on the basis of models for adjusted return on risk – RORAC (Return on Risk Adjusted Capital) and EVA (Economic Value Added).

ICAAP (Internal Capital Adequacy Assessment Process)

The process in the Group is divided into two main components:

1. Assessment of the Group's capital adequacy and an examination of the ability to bear losses in accordance with the risk appetite and the risk profile. When assessing capital adequacy, the Group takes into account its strategic plans and future capital needs as reflected in the three-year plan, in light of the economic forecasts.

   In the framework of examining risk-bearing ability, the Group examines its survival capacity in different types of stress scenarios covering all material risks to which the Group is exposed, and at various levels of severity, such as a sectoral crisis, a mild or a severe recession. Stress scenarios are developed and presented in a designated steering committee for the subject. The results of the discussions are reported to the Board of Directors and Management in the framework of their risk committees.

2. An annual review of risk management in the Group, an examination of compliance by risk management with standards required by the Basel II directives, the identification of strengths and weaknesses and the construction of work programs for the improvement and update of risk management processes, also, *inter alia*, in light of economic reviews and update of economic forecasts. The assessment of risk management processes is closely linked to capital adequacy assessment, and the allocation of capital is carried out in accordance with the severity of the risks and the quality of their management.

   The results of the process are formally collated in the ICAAP document submitted to the Supervisor of Banks at the end of May 2011. On the basis of this document, a dialogue takes place with the Supervisor of Banks with the aim of approving the capital adequacy determined by the Bank as a target in accordance with Basel II principles. This process is examined by the Supervisor of Banks as part of the Supervisory Review Process (SRP).

At the request of the Supervisor of Banks, the Bank submitted the ICAAP Report for 2010 in May 2011.

Below are a number of points for emphasis in the completion of Group preparations in 2011:

1. **First Pillar –**

   Completion of the handling of certain topics is required by the standardized approach, for example:

   - Completion of automation

- The use of all pledged securities eligible as collateral for reducing risk (after the recognition of government bonds as risk-reducing collateral)
- Continued enhancement of data, the use of data of domestic rating agencies for risk assessment etc.

Second Pillar -

- Increasing the use of stress scenarios in the business area.
- Continued synchronization of new information systems introduced in 2010.

2. Increasing and broadening implementation of the principles of corporate governance.

3. Upgrading the methodology for allocating capital to the business units and the measurement of risk-adjusted performance of the lines of business.

4. Increasing the preferred method of treatment of risk management in overseas units from the aspects of advice, support and control, adapted to Group risk management policy.

Basel III – Trends and Forward-looking Information

In December 2010, the Bank for International Settlements (BIS) published the Basel III directives. These directives rely on the Basel II directives, without replacing them, and update several aspects as reflected in the lessons of the recent financial crisis.

The aim of the directives proposed by the BIS is to enhance the stability of the banking system in times of crisis, in view of the lessons of the 2008 crisis, while adding improvements in the area of risk management and emphasis on:

- Improving the quality of capital.
- Improving liquidity ratios and fixing uniform standards for measuring liquidity.
- Strengthening supervision – determining better tools for adapting capital requirements for every bank in accordance with its risk profile.
- Increasing the transparency of methods for risk management.

Below are a number of points for emphasis in the Basel III directives:

1. A definition of the higher minimal capital ratio requirement for the core capital (including capital buffers for Tier 1 capital and total capital components*. Banks shall be required to meet these ratios gradually until 2019.

As a percentage of risk assets	Core capital ratio	Tier 1 capital ratio	Total capital ratio
Minimal capital required ratio	4.5%	6.0%	8.0%
Capital preservation buffer	2.5%	2.5%	2.5%
Minimal capital ratio + capital preservation	7.0%	8.5%	10.5%
Anti–cyclical buffer	0%-2.5%		

* The Banking Supervision Department in Israel has set a requirement of 7.5% for the core capital ratio in the banking system from 31 December 2010.

On 25 June 2011, the BIS published a recommendation to increase the core capital component in large banks with global systemic importance by a further 1-2.5%, up to rates that will vary in a range of 8-9.5%.

2. Focusing on strengthening the components of core capital, the component with the highest quality among the Bank’s capital base components.

3. The capital instruments in Tier 1 capital and Tier 2 capital will be required to include a mechanism for absorbing losses in case of insolvency.

4. The distinction between Upper Tier 2 capital and Lower Tier 2 capital was abolished and Tier 3 was abolished.

5. A new capital conservation buffer was determined – aimed at ensuring sufficient capital for absorbing losses at times of crisis.
The capital conservation buffer was set at 2.5% of total weighted risk assets, and includes core capital components. The buffer is constructed as an additional layer to the required core capital ratio of 4.5%.
While the Bank’s adequacy is within the range of the capital conservation buffer, distributing surplus profits, repurchasing stock or paying bonuses should be limited rather than limiting the business activity of the Bank.

6. A new countercyclical capital buffer was determined, at the level of 0%-2.5%. The supervising authority of each country will determine when a “credit bubble” and a potential for material losses begin to form, and verify that the system has sufficient capital for absorbing these losses. This means that the local supervisory authorities will be able to moderate an increase in credit by controlling the level of the buffer required from the banking system.

7. A new limitation was set as an addition to the capital adequacy ratio, which will be called "the leverage ratio", as one of the main components characterizing the last crisis was the considerable leverage of balance sheet and off-balance sheet assets in the banking system.

At the peak of the crisis, the banking sector had to materially reduce its leverage, in a way which intensified the negative effect on the prices of assets, eroded capital ratios and led to a squeeze of credit in the economy.
In light of that, a leverage ratio which is not derived from risk assets was determined. This ratio will supplement existing capital adequacy ratios.

8. Gradual transition arrangements were set for implementing the directive from 2013-2019.

9. Liquidity ratios - Two new liquidity ratios have been added, emphasizing the ability to manage medium and long term liquidity risks, as, during the recent crisis there was a relatively long period of time when it was not possible to raise capital or sell certain assets in the markets:

    1. A 30-day short-term liquidity coverage ratio (LCR).

    2. A net stable funding ratio (NSFR) (recalculated).

Full details on the subject of liquidity appear in a separate BIS document from December 2010.

Leumi Group has begun studying the implications of the above recommendations, if and when they are adopted in Israel, on capital adequacy and liquidity ratios that would be required. The Group has also begun reviewing the gaps likely to be disclosed as a result of the implementation of the above recommendations.

In addition, further documents of the BIS were published in the recent period on corporate governance and remuneration issues.

Certain data required under the Third Pillar of Basel II has been expanded and/or added in the Directors' Report and Financial Statements for 2010 and for this report in accordance with the Directives of the Banking Supervision Department, as set out below:

Subject	Table	Directors Report		Financial Statements	
		To 30 September 2011	For 2010	To 30 September 2011	For 2010
General	1	-	Page 13	-	-
Capital Structure (Qualitative and Quantitative)	2	Page 10	Pages 27-28	Note 4	Note 13
Capital Adequacy (Qualitative and Quantitative)	3	Page 11	Pages 28-29	-	-
Risk Exposures and Assessment – General Qualitative Disclosure		-	Pages 189-191	-	
Credit Risk Qualitative Disclosure	4	Pages 120-133	Pages 193-204	-	-
Credit Risk Exposures by Main Types of Credit	4(b)	Page 133	Page 191		
Exposures by Geographic Area to Foreign Countries	4(c)	Pages 147-149	Pages 234-235	Exhibit D	Exhibit F
Credit Risk Exposures by Counterparty and Main Types of Credit	4(d)	Pages 139-140	Page 197	-	
Credit Exposures by Repayment Period	4(e)	Pages 140-41	Page 198		
Problematic Credit Risk Exposures and Allowances for credit losses by Economic Sector	4(f)	-	-	Exhibit C	Exhibit E
Total Impaired Loans and Provisions by Geographic Area	4(g)	-	-	Exhibit D	Exhibit F
Movement in Balances of Provision for Credit Losses	4(h)	-	-	Note 3d	Note 4c
Credit Exposures by Risk Weighting	5	Pages 134-138	Page 192	-	-
Reduction of Credit Risk (Qualitative and Quantitative)	7	Pages 141-142	Page 205	-	-
Credit Exposures in Derivatives by Third Party (Qualitative and Quantitative)	8	Page 143	Page 206	-	-
Securitization (Qualitative and Quantitative)	9(f), 9(g)	Page 69 Page 70	Pages 113-114	Note 2	Note 3
Market Risk (Qualitative and Quantitative)	10	Pages122	Pages 209-220	-	-
Operational Risk - Qualitative Disclosure	12	Page 149	Pages 222-235	-	-
Investments in Shares (Qualitative and Quantitative)	13(b)	Page 72	Page 117	-	-
Investment in Shares of Companies Included on Equity Basis	13(b)	Page 107	Page 162	-	-
Interest Risk	14	Pages 124-127	Pages 211-215	Exhibit B	Exhibit D

Legal Proceedings

1. Civil Proceedings

1.1 The Bank is a party to legal proceedings, including petitions for leave to approve class actions, brought against it by customers and former customers of the Bank, and various third parties considering themselves prejudiced or harmed by the Bank's activity during the ordinary course of its business.

In the opinion of the Management of the Bank, based on legal opinions, appropriate provisions have been included in the Financial Statements to cover possible damages in respect of all the claims.

The grounds for claims against the Bank are different and varied, including assertions as to the non-execution of instructions or their late execution, petitions for approval of attachments imposed by third parties on assets of debtors that according to them, are held by the Bank, assertions that interest charged is in accordance with the interest rates agreed upon between the Bank and the customer, interest rates deviating from those permitted by law, errors in the dates of debiting and crediting accounts in respect of checks drawn on them, assertions in connection with the charging of commissions, assertions relating to securities, labor relations, drawing checks without cover, and failure to honor checks.

For details regarding claims and petitions for leave to approve class actions filed against the Bank, see note 6 to the Financial Statements.

Claims in an amount exceeding 1% of the capital of the Bank on 30 September 2011, of about NIS 227 million, are detailed in note 6 to the Financial Statements.

1.2 As part of measures taken to recover debts during the ordinary course of its business, the Bank, *inter alia*, initiates various legal proceedings against debtors and guarantors, and proceedings to realize collateral. The Financial Statements contain allowances for credit losses that were made by the Bank on the basis of an assessment of all the risks involved in the credit to the various sectors of the economy and taking into account the extent of the information concerning the relevant debtor/guarantor with regard to his financial strength and the collateral given to the Bank to secure repayment of the debt.

2. Other Proceedings

As a result of an audit conducted by the Ontario Division Securities Authority in Canada in the Bank's representative office in Toronto, negotiations are underway between the Bank and the Canadian authorities regarding changes in the Bank's modus operandi vis-à-vis Canadian customers in the area of securities and information that the Bank has been requested to furnish.

As part of investigations initiated by the United States regarding the relationships of banks with American taxpayers, overseas subsidiaries of banks are being requested to furnish information in connection with customers who are assessed to American tax. Subject to the law applicable to them, relevant information on this matter is being transferred to the appropriate authorities.

On 26 April 2009, a ruling of the Antitrust Commissioner was received at the Bank, pursuant to section 43(a) (1) of the Antitrust Law, 1988, according to which restrictive trade agreements, relating to the transfer of information regarding commissions, had existed between the Bank, Bank Hapoalim B.M., Israel Discount Bank Ltd., Mizrahi-Tefahot Bank Ltd. and the First International Bank of Israel Ltd., during the period from the beginning of the 1990's until the commencement of the Antitrust Authority's investigation of the matter, in November 2004. This is a civil ruling, which constitutes *prima facie* evidence of the matters therein determined in any legal proceedings. The Bank submitted an appeal against this ruling. On 22 February 2011, the Commissioner's response was submitted to the Bank. Following the parties' agreement, the appeal and additional appeals filed by other banks were transferred to a mediation procedure after the Antitrust Court requested the parties to consider doing this. At this stage, the implications of the ruling cannot be assessed.

For further details regarding contingent liabilities, see note 6 to the Financial Statements.

D. Additional Matters

Leumi for the Community

Corporate Responsibility in Leumi

On September 21, Leumi Group published its Corporate Responsibility Report summarizing its activities in the area of corporate governance, ethics, social responsibility and environmental responsibility in 2009-2010.

The report was prepared in accordance with the strict international standards of the Global Reporting Initiative Organization (GRI) and underwent the external supervision of the Corporate Responsibility Department of BDO Ziv Haft Consulting and Management. The report also covers Leumi's five main subsidiaries in Israel and Leumi's five major branches around the world.

The report earned the highest possible "A+" rating and indicates maximum transparency.

The report, as a whole, deals with creating value for stakeholders and is divided into sections, according to the value that the Group generates for the environment, community, customer, suppliers and employees.

In order to enhance the dialogue with stakeholders and increase transparency, the Group has for the first time launched a website dedicated to corporate responsibility, as a part of the overall approach to the management of activity in the digital arena. The address of the website is http://plus.leumi.co.il.

Leumi for the Community

Leumi's involvement in the community continued in 2011 in the main areas on which the Group focuses: education, culture, children, youth and health.

Leumi Promotes Israeli Art

From September, the Visitors' Centre at Leumi's Mani House is hosting the "One. Two and …. Three" exhibition at the initiative of ArtTLV, part of the Third Biennial Conference for Contemporary Art in Herzlia. On display is a selection of artwork from the exhibition illustrating a dialogue with the colours and features of the building. The combination of the contemporary works in the reconstructed building creates a connection between the new and the old, tradition and the future, the nostalgic and the contemporary.

"Leumi Follow Me – the Centennial Fund for Tomorrow's Generation"

In September, the 2011-12 year opened with the educational program, supported by the "Leumi, Follow Me" Association, in which some 20,000 young people from the geographical and social periphery, from all sectors of the population, began participating in the wide range of activities in the program.

Volunteer Work by Employees

Leumi employees volunteer in more than 260 social organizations. The choice of communal partners is made with the assistance and guidance of the Unit for the Involvement of Leumi Employees in the Community. Meetings with community partners are held throughout the year, with the aim of organizing long-term activities and developing a close partnership. Up until the end of September, 3,276 employees had taken part in community activity totaling 21,201 hours of volunteer work.

Summary of Donations and Sponsorships

In the first three quarters of 2011, Leumi Group made donations and provided sponsorships for social welfare and community purposes amounting to some NIS 26 million, of which donations totaled some NIS 18 million.

Internal Auditor

Details regarding Internal Audit in the Group, including the professional standards by which it operates, the annual and multi-year work plans, and the considerations for formulating them, were included in the Annual Report for 2010.

The Internal Auditor's report for the first half of 2011 was submitted on 1 September 2011.

Controls and Procedures

Controls and Procedures Regarding Disclosure in the Financial Statements

The Management of the Bank, together with the President and Chief Executive Officer and the Chief Accounting Officer, has, as at the end of the period covered by this Report, evaluated the effectiveness of the disclosure controls and procedures of the Bank. On the basis of this evaluation, the President and Chief Executive Officer of the Bank and the Chief Accounting Officer, have concluded that, as at the end of the said period, the disclosure controls and procedures of the Bank are effective for the recording, processing, summarizing and reporting of the information that the Bank is required to disclose in its quarterly financial statements, in accordance with the public reporting directives of the Supervisor of Banks and at the time required in these directives.

Following the first implementation of the directives of the Supervisor of Banks, on the subject of measurement and disclosure of impaired debts, credit risk, and allowances for credit risks, on 1 January 2011, changes were made in the processes for classification of problem debts, and calculation of the expenditures for credit losses and therefore a change has been applied in the Bank's internal control on financial reporting. The Bank has mapped the main controls connected to these processes, for the purposes of preparing the financial statements in the new format. Key compensating controls connected to the completeness of data and reasonableness of results have been applied during the preparation of the financial statements for this quarter, for the signing by the President and CEO of the Bank and the Chief Accounting Officer on the certification regarding internal controls on the financial reporting for the third quarter. The new automated systems, that have been developed in order to implement the problem debt directive, along with new features for the existing systems, became operational for the first time in 2011, and wherever faults have been found, work is in progress to fix them as soon as possible.

Except for that mentioned above, no material change occurred in the internal controls on financial reporting of the Bank during the quarter ending on 30 September 2011 that materially affected or is reasonably anticipated to materially affect the Bank's internal control of financial reporting.

Internal enforcement in securities

The Bank is prepared for the implementation of the provisions of the Improvement of Enforcement Procedures Law (Legislative Amendments), 2010, and is preparing an internal compliance program in securities. The subject is under the responsibility of the Compliance and Enforcement Division, which operates with the aid of professional work teams.

The Bank is mapping the legal requirements in the area of compliance with the securities and other laws which it was decided to include in the program and is mapping all of the risks against the existing controls in the Bank's working processes in the relevant areas, in order to locate exposures and gaps and deal with them.

For details regarding the aforesaid law, see pages 45 and 47 of the 2010 financial statements.

Management's Responsibility for the Internal Control of Financial Reporting (SOX Act 404)

The Supervisor of Banks published a circular detailing provisions for the implementation of the requirements of Section 404 of the Sox Act. In Section 404, the SEC, and the Public Company Accounting Oversight Board, determined provisions as to management's responsibility for the internal control over financial reporting and as to the external auditors' opinion with regard to the audit of the internal control over financial reporting.

The Supervisor's directives in the said circular prescribe that:

- Banking corporations shall apply the requirements of section 404 and also SEC directives that were published thereunder.

- Proper internal control requires a control system in accordance with a defined and recognized framework, and the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model meets the requirements and can be used in order to assess the internal control.

The COSO model provides defined standards for the purpose of assessing the internal control system in the organization and the ways in which it can be improved, and defines internal control as a process which is influenced by the board of directors, the management and other persons within the company.

According to the COSO model, reference should be made to five components:

1. Control Environment: This component involves the examination of the management's conduct with reference to various subjects such as the existence of a code of ethics, management's aggressiveness in reporting, etc.

2. Risk Assessment: This component involves the examination of the relevant risks regarding each process and sub-process that is checked, which have an impact on the financial statements.

3. Control Activities: This component involves the examination of the relevant controls regarding each of the risks identified at the risk assessment stage.

4. Information and Communication: This component involves checking that the information required for the Bank's activity is available, and that there is a mechanism that processes the information received and transfers it to the appropriate functions at the Bank.

5. Monitoring: This component involves the examination of the existence of a mechanism that checks the monitoring of the correction of deficiencies. Proper supervision may be expressed in a periodic examination of the internal control system, continuous implementation of opportunities for improvement, response by the management to the internal control recommendations made by external auditors as well as internal parties, rapid adaptation to new regulatory directives, etc.

The Bank has been working to implement the directive in Leumi Group on an ongoing basis, together with consultants who have been engaged for the purpose of carrying out the project.

Organizational Structure and Appointments

In accordance with the approval of the Board of Directors, the following promotions were made in recent months:

1. **Ms. Rakefet Russak-Aminoach**, Head of the Corporate Division, was appointed Senior Deputy Chief Executive Officer and Acting CEO in the absence of the President and CEO with effect from 1 July 2011.
2. **Mr. Shmuel Zlotnik**, Head of Investment Consulting, will complete his term of office on 31 December 2011 and will retire after 35 years of employment in the Bank.
3. **Ms. Einat Skornik** will be appointed Head of Investment Consulting, with effect from 1 January 2012.
4. **Mr. Gil Karni** was appointed General Manager of Leumi Luxembourg with effect from 16 August 2011.

Board of Directors

During the first nine months of 2011 and up until the date of publication of this Report, the following changes took place in the composition of the Board of Directors:

At the Special General Meeting held on 28 December 2010, Prof. Gabriella Shalev was elected as an external director of the Board of Directors of the Bank under section 239 of the Companies Law, 1999. Prof. Shalev was elected for a three-year period commencing 1 February 2011, succeeding Prof. Israel Gilead who completed two terms of office of three years each, as an external director in the Bank. Confirmation by the Supervisor of Banks at the Bank of Israel that it had no objection to the term of office of Prof. Shalev was received on 12 January 2011.

At the Annual General Meeting of the Bank held on 24 May 2011, Adv. Miriyam (Miri) Katz was reelected as a director in the Bank and Mr. David Avner and Mr. Amos Sapir were elected to serve as new directors in the Bank. In addition, Ms. Zipporah Samet was elected as a new external director in the Bank, pursuant to the Companies Law, 1999 for a period of three years. The new directors were elected in place of Mr. Avraham Guzman, Adv. Jacob Mashaal and Mr. Zvi Koren who retired by rotation.

The Supervisor of Banks confirmed he has no objections to the appointment as directors of all the candidates elected in the Meeting, as aforementioned. As a result, Ms. Zipporah Samet and Mr. David Avner commenced their terms of office on 25 July 2011, and Mr. Amos Sapir, after a cooling off period as an external director in accordance with Proper Conduct of Banking Business Directive 301, commenced his term of office on 31 October 2011.

On 4 October 2011, Dr. Ehud Shapira resigned from his term of office as a director in the Bank.

The Board of Directors expressed its thanks to Messrs. Israel Gilead, Rami Avraham Guzman, Jacob Mashaal, Zvi Koren and Ehud Shapira, who made a significant contribution to promoting and furthering the Bank's business.

For information regarding the above Annual General Meeting of the Bank, and the election of candidates to serve as directors, see page 6 above.

At the meeting of the Board of Directors held on 29 November 2011, it was resolved to approve and publish the Group's condensed unaudited Consolidated Financial Statements as of 30 September 2011 and for the period ending on that date.

During the period of January to September 2011, the Board of Directors held 41 plenary meetings and 105 committee meetings.

The Bank's Board of Directors expresses its appreciation and gratitude to employees and managers of the Bank and of Group companies in Israel and overseas, for their dedicated work and their contribution to the promotion of the Group's business.

________________	__________________
David Brodet	Galia Maor
Chairman of the Board of Directors	President and Chief Executive Officer

29 November 2011

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts

Exhibit A

	For the three months ended 30 September							
	2011				2010			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Israeli currency - unlinked								
Assets (c) (d)	**176,611**	**2,177**	**5.02**		159,805	1,477	3.75	
Effect of embedded and ALM derivatives (e)	**69,819**	**417**			57,053	73		
Total assets	**246,430**	**2,594**		**4.28**	216,858	1,550		2.89
Liabilities (d)	**145,093**	**(874)**	**(2.43)**		133,388	(465)	(1.40)	
Effect of embedded and ALM derivatives (e)	**77,501**	**(383)**			60,375	(40)		
Total liabilities	**222,594**	**(1,257)**		**(2.28)**	193,763	(505)		(1.05)
Interest margin			**2.59**	**2.00**			2.35	1.84
Israeli currency – linked to the CPI								
Assets (c) (d)	**60,744**	**879**	**5.92**		57,964	1,265	9.02	
Effect of embedded and ALM derivatives (e)	**3,322**	**120**			2,831	39		
Total assets	**64,066**	**999**		**6.38**	60,795	1,304		8.86
Liabilities (d)	**48,046**	**(739)**	**(6.30)**		48,347	(1,071)	(9.16)	
Effect of embedded and ALM derivatives (e)	**11,682**	**(139)**			10,398	(138)		
Total liabilities	**59,728**	**(878)**		**(6.01)**	58,745	(1,209)		(8.49)
Interest margin			**(0.38)**	**0.37**			(0.14)	0.37
Foreign currency:								
(including Israeli currency linked								
to foreign currency)								
Assets (c) (d) (i)	**80,108**	**5,939**	**33.12**		90,817	(1,497)	(6.43)	
Effect of derivatives: (e)								
Hedging derivatives	**296**	**(2)**			387	(1)		
Embedded derivatives and ALM	**153,071**	**7,889**			142,687	(3,249)		
Total assets	**233,475**	**13,826**		**25.88**	233,891	(4,747)		(7.87)
Liabilities (d)	**99,898**	**(7,214)**	**(32.17)**		105,360	2,612	9.55	
Effect of derivatives: (e)								
Hedging derivatives (i)	**388**	**-**			458	2		
Embedded derivatives and ALM (d)	**137,867**	**(6,813)**			133,195	2,558		
Total liabilities	**238,153**	**(14,027)**		**(25.72)**	239,013	5,172		8.38
Interest margin			**0.95**	**0.16**			3.12	0.51

See notes on page 168.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts

Exhibit A (cont'd)

	For the three months ended 30 September							
	2011				2010			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Total monetary assets generating interest income (d) (f)	**317,463**	**8,995**	**11.82**		308,586	1,245	1.62	
Effect of derivatives: (e)								
Hedging derivatives	**296**	**(2)**			387	(1)		
Embedded derivatives and ALM	**226,212**	**8,426**			202,571	(3,137)		
Total assets	**543,971**	**17,419**		**13.44**	511,544	(1,893)		(1.47)
Total monetary liabilities generating interest expenses (d)	**293,037**	**(8,827)**	**(12.60)**		287,095	1,076	1.49	
Effect of derivatives: (e)								
Hedging derivatives	**388**	**-**			458	2		
Embedded derivatives and ALM (d)	**227,050**	**(7,335)**			203,968	2,380		
Total liabilities	**520,475**	**(16,162)**		**(13.01)**	491,521	3,458		2.78
Interest margin			**(0.78)**	**0.43**			3.11	1.31
In respect of options		**125**				(17)		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated)		**6**				(10)		
Financing commissions and other financing income (g)		**338**				294		
Other financing income (expenses)		**(34)**				14		
Net interest income before expenses in respect of credit losses		**1,692**				1,846		
Expenses in respect of credit losses		**(378)**				(46)		
Net interest income after expenses in respect of credit losses		**1,314**				1,800		
Monetary assets generating interest income (d) (f)	**317,463**				308,586			
Assets derived from derivative instruments (h)	**8,297**				8,379			
Other monetary assets (d)	**3,945**				3,324			
Allowance in respect of credit losses (i)	**(4,698)**				(818)			
Total monetary assets	**325,007**				319,471			
Monetary liabilities generating interest expenses (d)	**293,037**				287,095			
Liabilities derived from derivative instruments (h)	**9,835**				9,755			
Other monetary liabilities (d)	**8,573**				7,172			
Total monetary liabilities	**311,445**				304,022			
Total monetary assets exceeding monetary liabilities	**13,562**				15,449			
Non-monetary assets	**10,968**				8,379			
Non-monetary liabilities	**1,759**				327			
Total capital resources	**22,771**				23,501			

See notes on page 168.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts

Exhibit A (cont'd)

Notes:

(a) The data in this exhibit is shown before and after the effect of derivative instruments (including the effect of off-balance sheet derivative instruments).

(b) Based on monthly opening balances, and quarterly opening balances in foreign consolidated companies, except for the unlinked Israeli currency sector where the average balance is based on daily figures, and before deduction of the average balance sheet balance of allowances for credit losses. In 2010, after deduction of the balance sheet balance of allowances for credit losses.

(c) The average balance of unrealized profits (losses) from adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets as follows:

In the unlinked Israeli currency sector for the three and nine month period an amount of NIS (70) million and NIS (146) million respectively (30 September 2010 – NIS 81 million and NIS 33 million respectively).

In the CPI-linked Israeli currency sector for the three and nine month period an amount of NIS 41 million and NIS 132 million respectively (30 September 2010 – NIS 344 million and NIS 255 million respectively).

In the foreign currency sector (which includes Israeli currency linked to foreign currency) for the three and nine month period an amount of NIS (49) million and NIS (33) million respectively (30 September 2010 – NIS 13 million and NIS (65) million respectively).

(d) Excluding derivative instruments.

(e) Hedging derivative instruments (excluding options), embedded derivatives which have been separated, and ALM derivatives, which constitute part of the Bank's asset and liability management system.

(f) The average balance of unrealized profits (losses) on adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of assets in the various sectors, for the three and nine month period in an amount of NIS (78) million and NIS (47) million respectively (30 September 2010 – NIS 438 million and NIS 223 million respectively).

(g) This includes profits and losses on sales of investments in debentures and adjustments to fair value of debentures held for trading.

(h) Average balances of derivative instruments (does not include average of off-balance sheet derivative instruments).

(i) Reclassified.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Foreign Currency: Nominal US$

Exhibit A (cont'd)

	For the three months ended 30 September							
	2011				2010			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(U.S.$ millions)		%	%	(U.S.$ millions)		%	%
Foreign currency:								
Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d) (f)	13,914	115	3.35		14,292	71	2.00	
Effect of derivatives: (e)								
Hedging derivatives	86	-			101	(1)		
Embedded derivatives and ALM	44,122	(6)			37,162	37		
Total assets	58,122	109		0.75	51,555	107		0.83
Liabilities (d)	20,441	(73)	(1.44)		19,361	(27)	(0.56)	
Effect of derivatives: (e)								
Hedging derivatives (f)	109	-			115	1		
Embedded derivatives and ALM	39,388	(46)			34,661	(23)		
Total liabilities	59,938	(119)		(0.80)	54,137	(49)		(0.36)
Interest margin			1.91	(0.05)			1.44	0.47
Foreign currency –								
Foreign operations (integrated operations)								
Assets (c) (d)	9,358	73	3.16		9,315	55	2.38	
Effect of embedded and ALM derivatives (e)	54	8			90	(5)		
Total assets	9,412	81		3.49	9,405	50		2.14
Liabilities (d)	8,522	(18)	(0.85)		8,056	(12)	(0.60)	
Effect of embedded and ALM derivatives (e)	55	18			114	(26)		
Total liabilities	8,577	-		-	8,170	(38)		(1.87)
Interest margin			2.31	3.49			1.78	0.27
Total:								
Foreign currency assets generating financing income (c) (d)	23,272	188	3.27		23,607	126	2.15	
Effect of derivatives: (e)								
Hedging derivatives	86	-			101	(1)		
Embedded derivatives and ALM	44,176	2			37,252	32		
Total assets	67,534	190		1.13	60,960	157		1.03
Monetary liabilities in foreign currency generating financing expense (d)	28,963	(91)	(1.26)		27,417	(39)	(0.57)	
Effect of derivatives: (e)								
Hedging derivatives	109	-			115	1		
Embedded derivatives and ALM	39,443	(28)			34,775	(49)		
Total liabilities	68,515	(119)		(0.70)	62,307	(87)		(0.56)
Interest margin			2.01	0.43			1.58	0.47

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Foreign Currency: Nominal US$

Exhibit A (cont'd)

Notes:

(a) The data in this exhibit is shown before and after the effect of derivative instruments (including the effect of off-balance sheet derivative instruments).

(b) Based on monthly opening balances for the Bank and consolidated companies in Israel and on quarterly opening balances for foreign subsidiaries, and before deduction of the average balance sheet balance of allowances for credit losses (in 2010, after deduction of the average balance sheet balance of allowances for credit losses).

(c) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets for domestic and foreign operations, in the amount of US$ (15) million (30 September 2010 - US$ 3 million).

(d) Excluding derivative instruments.

(e) Hedging derivative instruments (excluding options), embedded derivatives which have been separated, and ALM derivatives, which constitute part of the Bank’s asset and liability management system.

(f) Reclassified.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts

Exhibit A (cont'd)

	For the nine months ended 30 September							
	2011				2010			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Israeli currency - unlinked								
Assets (c) (e)	**169,365**	**5,823**	**4.61**		157,784	4,140	3.51	
Effect of embedded and ALM derivatives (d)	**69,179**	**500**			49,044	313		
Total assets	**238,544**	**6,323**		**3.55**	206,828	4,453		2.88
Liabilities (e)	**141,446**	**(2,222)**	**(2.10)**		131,934	(1,201)	(1.22)	
Effect of embedded and ALM derivatives (d)	**73,519**	**(586)**			53,502	(263)		
Total liabilities	**214,965**	**(2,808)**		**(1.75)**	185,436	(1,464)		(1.05)
Interest margin			**2.51**	**1.80**			2.29	1.83
Israeli currency – linked to the CPI								
Assets (c) (e)	**60,715**	**3,246**	**7.19**		58,813	2,624	5.99	
Effect of embedded and ALM derivatives (d)	**3,124**	**175**			3,015	26		
Total assets	**63,839**	**3,421**		**7.21**	61,828	2,650		5.76
Liabilities (e)	**47,518**	**(2,611)**	**(7.39)**		48,270	(2,219)	(6.18)	
Effect of embedded and ALM derivatives (d)	**11,020**	**(295)**			10,662	(413)		
Total liabilities	**58,538**	**(2,906)**		**(6.67)**	58,932	(2,632)		(6.00)
Interest margin			**(0.20)**	**0.54**			(0.19)	(0.24)
Foreign currency –								
(including Israeli currency linked								
to foreign currency)								
Assets (c) (e) (i)	**82,835**	**6,029**	**9.82**		88,932	(1,958)	(2.92)	
Effect of derivatives: (e)								
Hedging derivatives	**371**	**(3)**			803	(3)		
Embedded derivatives and ALM	**145,786**	**6,581**			135,993	(3,628)		
Total assets	**228,992**	**12,607**		**7.41**	225,728	(5,589)		(3.29)
Liabilities (e)	**99,373**	**(5,868)**	**(7.95)**		104,493	3,969	5.03	
Effect of derivatives: (e)								
Hedging derivatives (i)	**406**	**1**			777	6		
Embedded derivatives and ALM	**134,862**	**(6,108)**			125,181	2,656		
Total liabilities	**234,641**	**(11,975)**		**(6.86)**	230,451	6,631		3.82
Interest margin			**1.87**	**0.55**			2.11	0.53

See notes on page 168.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts

Exhibit A (cont'd)

	For the nine months ended 30 September							
	2011				2010			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Total monetary assets generating interest income (e) (f)	**312,915**	**15,098**	**6.48**		305,529	4,806	2.10	
Effect of derivatives:								
Hedging derivatives	**371**	**(3)**			803	(3)		
Embedded derivatives and ALM (d)	**218,089**	**7,256**			188,052	(3,289)		
Total assets	**531,375**	**22,351**		**5.65**	494,384	1,514		0.41
Total monetary liabilities generating interest expenses (d)	**288,337**	**(10,701)**	**(4.98)**		284,697	549	0.26	
Effect of derivatives: (e)								
Hedging derivatives	**406**	**1**			777	6		
Embedded derivatives and ALM	**219,401**	**(6,989)**			189,345	1,980		
Total liabilities	**508,144**	**(17,689)**		**(4.67)**	474,819	2,535		0.71
Interest margin			**1.50**	**0.98**			2.36	1.12
In respect of options		**201**				51		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**13**				11		
Financing commissions and other financing income (g)		**728**				1,171		
Other financing income (expenses)		**(22)**				10		
Net interest income before expenses in respect of credit losses		**5,582**				5,292		
Expenses for credit losses		**(349)**				(372)		
Net interest income after expenses in respect of credit losses		**5,233**				4,920		
Monetary assets generating interest income (d) (f)	**312,915**				305,529			
Assets derived from derivative instruments (h)	**8,104**				7,248			
Other monetary assets (d)	**4,610**				3,591			
Allowance in respect of credit losses (i)	**(5,173)**				(860)			
Total monetary assets	**320,456**				315,508			
Monetary liabilities generating interest expenses (d)	**288,337**				284,697			
Liabilities derived from derivative instruments (h)	**9,661**				8,469			
Other monetary liabilities (d)	**8,408**				7,840			
Total monetary liabilities	**306,406**				301,006			
Total monetary assets exceeding monetary liabilities	**14,050**				14,502			
Non-monetary assets	**9,965**				8,670			
Non-monetary liabilities	**1,195**				384			
Total capital resources	**22,820**				22,788			

See notes on page 168.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Foreign Currency: Nominal US$

Exhibit A (cont'd)

	For the nine months ended 30 September							
	2011				2010			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(U.S.$ millions)		%	%	(U.S.$ millions)		%	%
Foreign currency:								
Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d) (f)	**14,273**	**274**	**2.57**		14,338	222	2.07	
Effect of derivatives: (e)								
Hedging derivatives	**105**	**(1)**			214	(1)		
Embedded derivatives and ALM	**41,321**	**4**			35,949	8		
Total assets	**55,699**	**277**		**0.66**	50,501	229		0.61
Liabilities (d)	**20,144**	**(143)**	**(0.95)**		19,532	(74)	(0.51)	
Effect of derivatives: (e)								
Hedging derivatives (f)	**114**	**-**			205	1		
Embedded derivatives and ALM	**38,080**	**(72)**			33,072	(50)		
Total liabilities	**58,338**	**(215)**		**(0.49)**	52,809	(123)		(0.31)
Interest margin			**1.62**	**0.17**			1.56	0.30
Foreign currency –								
Foreign operations (integrated operations)								
Assets (c) (d)	**9,343**	**217**	**3.11**		9,177	207	3.02	
Effect of embedded and ALM derivatives (e)	**52**	**11**			59	19		
Total assets	**9,395**	**228**		**3.25**	9,236	226		3.28
Liabilities (d)	**8,177**	**(50)**	**(0.82)**		8,122	(49)	(0.81)	
Effect of embedded and ALM derivatives (e)	**180**	**(10)**			68	(27)		
Total liabilities	**8,357**	**(60)**		**(0.96)**	8,190	(76)		(1.24)
Interest margin			**2.29**	**2.29**			2.21	2.04
Total								
Foreign currency monetary assets generating interest income (c) (d)	**23,616**	**491**	**2.78**		23,515	429	2.44	
Effect of derivatives: (e)								
Hedging derivatives	**105**	**(1)**			214	(1)		
Embedded derivatives and ALM	**41,373**	**15**			36,008	27		
Total assets	**65,094**	**505**		**1.04**	59,737	455		1.02
Foreign currency monetary liabilities generating interest expense (d)	**28,321**	**(193)**	**(0.91)**		27,654	(123)	(0.59)	
Effect of derivatives: (e)								
Hedging derivatives	**114**	**-**			205	1		
Embedded derivatives and ALM	**38,260**	**(82)**			33,140	(77)		
Total liabilities	**66,695**	**(275)**		**(0.55)**	60,999	(199)		(0.44)
Interest margin			**1.87**	**0.49**			1.85	0.58

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Foreign Currency: Nominal US$

Exhibit A (cont'd)

Notes:

(a) The data in this exhibit is shown before and after the effect of derivative instruments (including the effect of off-balance sheet derivative instruments).

(b) Based on monthly opening balances for the Bank and consolidated companies in Israel and on quarterly opening balances for foreign subsidiaries, and after deduction of the average balance sheet balance of the provisions for credit losses.

(c) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets for domestic and foreign operations, in the amount of US$ (10) million (30 September 2010 - US$ (16) million).

(d) Excluding derivative instruments.

(e) Hedging derivative instruments (excluding options), embedded derivatives which have been separated, and ALM derivatives, which constitute part of the Bank’s asset and liability management system.

(f) Reclassified.

Exposure to Interest Rate Fluctuations - on Consolidated Basis
Reported amounts

Exhibit B

	30 September 2011												31 December 2010			30 September 2010		
	On demand up to one month	One to three months	Three months to one year	One to three years	Three to five years	Over five to ten years	Over ten to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)
	NIS millions										%	Years		%	Years		%	Years
Israeli currency - unlinked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	152,698	4,933	13,966	5,680	2,247	3,706	250	(5)	758	184,233	4.43	0.39	164,964	4.27	0.43	167,794	3.81	0.36
Derivative financial instruments (excluding options)	43,629	70,236	56,560	24,123	12,234	19,919	194	-	-	226,895	-	1.30	178,211	-	1.09	151,095	-	1.09
Options (in terms of basis asset) (d)	871	1,599	3,828	560	36	28	97	-	-	7,019	-	-	7,578	-	-	8,326	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	197,198	76,768	74,354	30,363	14,517	23,653	541	(5)	758	418,147	4.43	0.88	350,753	4.27	0.76	327,215	3.81	0.69
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	128,874	6,425	7,675	8,005	786	1,194	-	-	7	152,966	4.10	0.27	140,887	3.67	0.28	137,614	3.07	0.30
Derivative financial instruments (excluding options)	46,803	80,944	52,464	26,257	12,459	18,285	271	-	-	237,483	-	1.24	182,032	-	1.04	159,071	-	1.03
Options (in terms of basis asset) (d)	1,390	2,128	3,943	903	-	1	3	-	-	8,368	-	-	10,367	-	-	9,657	-	-
Off-balance sheet financial instruments	-	-	33	-	-	-	-	-	-	33	-	0.50	89	-	0.50	68	-	0.50
Total fair value	177,067	89,497	64,115	35,165	13,245	19,480	274	-	7	398,850	4.10	0.84	333,375	3.67	0.68	306,410	3.07	0.67
Financial instruments, net																		
Exposure to interest rate fluctuations	20,131	(12,729)	10,239	(4,802)	1,272	4,173	267	(5)										
Accumulated exposure in the sector	20,131	7,402	17,641	12,839	14,111	18,284	18,551	18,546										
Israeli currency – linked to the CPI																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	2,737	3,546	16,979	16,354	11,589	8,895	1,220	32	45	61,397	3.30	3.59	62,174	2.83	3.20	61,123	2.69	2.85
Derivative financial instruments (excluding options)	99	5	1,710	855	243	1,615	219	-	-	4,746	-	4.18	2,704	-	1.89	3,055	-	2.85
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	2,836	3,551	18,689	17,209	11,832	10,510	1,439	32	45	66,143	3.30	3.63	64,878	2.83	3.14	64,178	2.69	2.85
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	1,831	2,570	11,047	11,671	11,671	12,292	1,302	207	-	52,591	2.69	3.56	51,636	2.23	3.83	54,372	1.92	3.73
Derivative financial instruments (excluding options)	361	1,567	5,148	2,714	2,065	663	19	-	-	12,537	-	1.76	9,685	-	2.13	10,513	-	2.06
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	8	-	-	8	-	-
Off-balance sheet financial instruments	-	-	123	-	-	-	-	-	-	123	-	-	83	-	0.50	80	-	0.50
Total fair value	2,192	4,137	16,318	14,385	13,736	12,955	1,321	207	-	65,251	2.69	3.20	61,412	2.23	3.56	64,973	1.92	3.46
Financial instruments, net																		
Exposure to interest rate fluctuations	644	(586)	2,371	2,824	(1,904)	(2,445)	118	(175)										
Accumulated exposure in the sector	644	58	2,429	5,253	3,349	904	1,022	847										

Exposure to Interest Rate Fluctuations - on Consolidated Basis
Reported amounts

Exhibit B (cont'd):

(a) Excluding balance-sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments. The figures in the "Without fixed maturity" column are the non-discounted balance-sheet balances, including overdue balances in the amount of NIS 958 million.
(b) Weighted average as per fair value of effective duration.
(c) Including non-monetary assets shown in "Without fixed maturity" column.
(d) Duration less than 0.05 years.

General notes:
(1) In this table, the data by periods shows the present value of future cash flows, discounted at the internal rate of return used for discounting them to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 18D in the Annual Financial Report.
(2) The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.
(3) The effective duration of a group of financial instruments constitutes an approximation of the percentage change in the fair value of the group of financial instruments that would be caused as a result of a small change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.
(4) The effect of hedging transactions is included in total assets or total liabilities, as applicable.

Exposure to Interest Rate Fluctuations - on Consolidated Basis
Reported amounts

Exhibit B (cont'd):

	30 September 2011												31 December 2010			30 September 2010		
	On demand up to one month	One to three months	Three months to one year	One to three years	Three to five years	Over five to ten years	Over ten to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)
	NIS millions										%	Years		%	Years			
Foreign currency and foreign currency linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	48,385	17,615	8,543	3,774	4,038	1,728	136	5	162	84,386	3.86	0.57	84,043	3.14	0.70	84,241	3.10	0.61
Derivative financial instruments (excluding options)	58,901	58,050	73,917	36,090	3,598	12,915	473	-	161	244,105	-	0.98	198,480	-	0.93	198,353	-	0.92
Options (in terms of basis asset) (d)	5,967	4,673	38,139	121,490	110,451	87,296	8,828	-	-	376,844	-	-	44,194	-	-	39,965	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	113,253	80,338	120,599	161,354	118,087	101,939	9,437	5	323	705,335	3.86	0.41	326,717	3.14	0.75	322,559	3.10	0.73
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	62,129	19,481	20,579	4,149	528	356	54	-	12	107,288	2.18	0.31	99,253	1.43	0.30	102,654	1.21	0.31
Derivative financial instruments (excluding options)	52,007	46,572	70,496	36,182	6,531	14,371	508	-	161	226,828	-	1.13	189,015	-	1.03	184,754	-	1.17
Options (in terms of basis asset) (d)	5,494	4,252	37,728	121,457	110,478	87,309	8,828	-	-	375,546	-	-	41,357	-	-	38,583	-	-
Off-balance sheet financial instruments	-	-	9	-	-	-	-	-	-	9	-	0.50	72	-	0.50	87	-	0.50
Total fair value	119,630	70,305	128,812	161,788	117,537	102,036	9,390	-	173	709,671	2.18	0.41	329,697	1.43	0.68	326,078	1.21	0.76
Financial instruments, net																		
Exposure to interest rate fluctuations	(6,377)	10,033	(8,213)	(434)	550	(97)	47	5										
Accumulated exposure in the sector	(6,377)	3,656	(4,557)	(4,991)	(4,441)	(4,538)	(4,491)	(4,486)										
Total exposure to interest rate fluctuations																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a) (c)	203,820	26,094	39,488	25,808	17,874	14,329	1,606	32	3,986	333,037	3.68	1.03	314,357	3.23	1.06	316,099	3.00	0.92
Derivative financial instruments (excluding options)	102,629	128,291	132,187	61,068	16,075	34,449	886	-	263	475,848	-	1.17	380,616	-	1.02	353,554	-	1.01
Options (in terms of basis asset) (d)	6,838	6,272	41,967	122,050	110,487	87,324	8,925	-	-	383,863	-	-	51,772	-	-	48,291	-	-
Total fair value	313,287	160,657	213,642	208,926	144,436	136,102	11,417	32	4,249	1,192,748	3.68	0.75	746,745	3.23	0.96	717,944	3.00	0.90
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a) (c)	192,834	28,476	39,301	23,825	12,985	13,842	1,356	207	296	313,122	2.86	0.84	291,824	2.36	0.92	294,685	2.01	0.94
Derivative financial instruments (excluding options)	99,171	129,083	128,108	65,153	21,055	33,319	798	-	250	476,937	-	1.20	381,924	-	1.06	355,336	-	1.13
Options (in terms of basis asset) (d)	6,884	6,380	41,671	122,360	110,478	87,310	8,831	-	-	383,914	-	-	51,732	-	-	48,248	-	-
Off-balance sheet financial instruments	-	-	165	-	-	-	-	-	123	288	-	0.07	367	-	0.50	350	-	0.50
Total fair value	298,889	163,939	209,245	211,338	144,518	134,471	10,985	207	669	1,174,261	2.86	0.71	725,847	2.36	0.93	698,619	2.01	0.97
Financial instruments, net																		
Exposure to interest rate fluctuations	14,398	(3,282)	4,397	(2,412)	(82)	1,631	432	(175)										
Accumulated exposure in the sector	14,398	11,116	15,513	13,101	13,019	14,650	15,082	14,907										

Credit to the Public - Risk by Economic Sector - on a Consolidated Basis
Reported amounts

Exhibit C

	30 September 2011							
	Risk of credit to the public					Credit losses (4)		
				Risk of credit to the public includes:				
	Balance sheet credit risk (*) (1)	Off-balance sheet credit risk (*) (2)	Overall credit risk (*)	Problematic credit risk (*)	Impaired credit to the public (*)	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)							
Activities of borrowers in Israel								
Agriculture	1,767	372	2,139	115	67	(25)	(1)	(44)
Industry	25,528	15,996	41,524	1,361	797	26	584	(513)
Construction and real estate (7)	39,260	28,963	68,223	3,822	2,096	192	694	(1,103)
Electricity and water	1,202	343	1,545	54	1	3	-	(8)
Commerce	17,829	4,216	22,045	819	477	17	(165)	(315)
Hotels and restaurants	3,475	324	3,799	977	794	(51)	(41)	(177)
Transport and storage	5,106	1,154	6,260	149	95	5	38	(79)
Communications and computer services	4,717	2,914	7,631	182	140	(17)	30	(84)
Financial services	18,474	13,412	31,886	569	411	118	142	(209)
Business and other services	5,110	1,905	7,015	84	42	(8)	(13)	(78)
Public and community services	5,956	1,154	7,110	210	46	35	36	(42)
Private individuals - loans for housing	55,596	1,910	57,506	955	23	(9)	41	(550)
Private individuals - other	27,511	27,092	54,603	316	43	(24)	79	(409)
Total for activities of borrowers in Israel	211,531	99,755	311,286	9,613	5,032	262	1,424	(3,611)
Activities of borrowers abroad	42,298	17,535	59,833	2,303	1,307	87	410	(676)
Total	253,829	117,290	371,119	11,916	6,339	349	1,834	(4,287)
Credit risk included within the various economic sectors:								
Settlement movements (5)	3,102	744	3,846	119	79	(42)	26	(30)
Local authorities (6)	3,019	128	3,147	18	1	(6)	-	(2)

(1) Including credit to the public in the amount of NIS 206,331 million in respect of activity in Israel and NIS 34,840 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,516 million in respect of activity in Israel and NIS 6,609 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 3,684 million in respect of activity in Israel and NIS 849 million in respect of activity abroad.

(2) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

(3) Balance sheet and off-balance sheet credit risk in respect of the public, which is impaired, inferior, or under special supervision.

(4) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").

(5) Kibbutzim and moshavim, regional and national organizations and corporations controlled by settlement movement.

(6) Including corporations under their control.

(7) Including housing loans made to purchasing groups in process of construction in the amount of NIS 889 million and off-balance sheet credit risk in the amount of NIS 2,021 million.

(*) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired credit to the public are stated before the effect of the provision for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower liability.

Credit to the Public - Risk by Economic Sector - on a Consolidated Basis (cont'd)
Reported amounts

Exhibit C (cont'd)

	30 September 2010				
	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk to public	Expense in the period for specific provision for doubtful debts	Balance of problematic debts (3)
	(NIS millions)				
Activities of borrowers in Israel					
Agriculture	1,654	329	1,983	6	124
Industry	21,680	13,993	35,673	(36)	1,753
Construction and real estate (6) (7)	37,636	22,985	60,621	46	5,868
Electricity and water	1,298	566	1,864	-	4
Commerce	15,563	3,693	19,256	83	1,313
Hotels and restaurants	3,392	296	3,688	3	1,449
Transport and storage	3,977	897	4,874	(66)	587
Communications and computer services	5,079	2,052	7,131	(14)	294
Financial services	14,471	13,875	28,346	(19)	659
Business and other services	4,551	1,790	6,341	9	425
Public and community services	5,945	1,028	6,973	-	243
Private individuals - loans for housing (7)	48,957	2,679	51,636	(33)	711
Private individuals - other	24,901	26,058	50,959	133	964
Total for activities of borrowers in Israel	189,104	90,241	279,345	112	14,394
Activities of borrowers abroad (8)	45,084	15,038	60,122	354	3,274
Total	234,188	105,279	339,467	466	17,668
Credit risk included within the various economic sectors:					
Settlement movements (4)	2,768	952	3,720	(41)	666
Local authorities (5)	3,063	123	3,186	-	83

(1) Including credit to the public in the amount of NIS 184,094 million in respect of activity in Israel and NIS 33,805 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,227 million in respect of activity in Israel and NIS 10,551 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 3,783 million in respect of activity in Israel and NIS 728 million in respect of activity abroad.

(2) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

(3) Balances of problematic debt net of credit covered by collateral allowed as a deduction for purposes of individual and group borrower limits, including off-balance sheet risk components.

(4) Kibbutzim and moshavim, regional and national organizations and corporations controlled by settlement movement.

(5) Including corporations under their control.

(6) Including housing loans made to purchasing groups in process of construction in the amount of NIS 709 million and off-balance sheet credit risk in the amount of NIS 1,431 million.

(7) Reclassified.

(8) Reclassified – Debentures of banking holding companies abroad were reported as debentures of banks.

Credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

Credit to the Public - Risk by Economic Sector - on a Consolidated Basis (cont'd)
Reported amounts

Exhibit C (cont'd)

	31 December 2010				
	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk to public	Expense in the period for specific provision for doubtful debts	Balance of problematic debts (3)
	(NIS millions)				
Activities of borrowers in Israel					
Agriculture	1,729	324	2,053	(2)	177
Industry	21,440	13,243	34,683	(51)	1,691
Construction and real estate (6) (7)	38,144	24,649	62,793	212	5,454
Electricity and water	1,257	505	1,762	1	6
Commerce	15,571	3,761	19,332	85	1,228
Hotels and restaurants	3,441	309	3,750	(34)	1,456
Transport and storage	3,958	1,161	5,119	(61)	642
Communications and computer services	4,836	1,857	6,693	(54)	172
Financial services	16,842	12,049	28,891	(62)	632
Business and other services	4,747	1,702	6,449	12	453
Public and community services	6,065	1,110	7,175	11	235
Private individuals - loans for housing (7)	50,980	2,553	53,533	(51)	654
Private individuals - other	26,111	25,589	51,700	206	837
Total for activities of borrowers in Israel	195,121	88,812	283,933	212	13,637
Activities of borrowers abroad (8)	44,887	14,268	59,155	509	2,480
Total	240,008	103,080	343,088	721	16,117
Credit risk included within the various economic sectors:					
Settlement movements (4)	2,804	633	3,437	(95)	192
Local authorities (5)	3,154	119	3,273	-	73

(1) Including credit to the public in the amount of NIS 190,651 million in respect of activity in Israel and NIS 33,975 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,367 million in respect of activity in Israel and NIS 10,290 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 3,103 million in respect of activity in Israel and NIS 622 million in respect of activity abroad.
(2) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(3) Balances of problematic debts net of credit covered by collateral allowed as a deduction for purposes of individual and group borrower limits, including off-balance sheet risk components.
(4) Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.
(5) Including corporations under their control.
(6) Including housing loans made to purchasing groups in process of construction in the amount of NIS 853 million and off-balance sheet credit risk in the amount of NIS 1,625 million.
(7) Reclassified.
(8) Reclassified – Debentures of banking holding companies abroad were previously reported as debentures of banks.

Credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

Country Exposure
Reported Amounts

Exhibit D

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower.

	30 September 2011					
	Balance Sheet Exposure (a)					
	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities
Country	(NIS millions)					
United States	12	3,891	8,106	17,871	7,458	10,413
United Kingdom	-	3,773	2,196	5,377	1,859	3,518
France	-	2,061	682	-	-	-
Switzerland	-	812	853	746	512	234
Germany	34	2,463	1,574	-	-	-
Belgium	-	885	132	-	-	-
Italy	-	499	45	-	-	-
Holland	-	1,969	1,757	-	-	-
Others	358	3,621	3,108	1,996	1,016	980
Total country exposure	404	19,974	18,453	25,990	10,845	15,145
Total exposure to LDC countries	164	510	1,137	1,947	1,016	931
Total exposure to PIIGS countries (d)	-	882	198	-	-	-

	Total balance sheet exposure			Off - Balance Sheet Exposure (a) (b)			
					Cross-Border Balance Sheet Exposure (a)		
		Balance sheet commercial credit risk	Balance of problematic debts	Total off-balance sheet exposure	Of which: Problematic off-balance sheet commercial credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)						
Country							
United States	22,422	468	315	13,767	19	5,402	6,607
United Kingdom	9,487	768	322	10,303	14	2,873	3,096
France	2,743	7	-	3,196	-	979	1,764
Switzerland	1,899	77	77	1,955	-	1,121	544
Germany	4,071	3	3	3,722	-	2,357	1,714
Belgium	1,017	-	-	424	-	783	234
Italy	544	6	6	16	-	94	450
Holland	3,726	39	12	361	-	2,200	1,526
Others	8,067	552	427	1,931	-	4,038	3,049
Total country exposure	53,976	1,920	1,162	35,675	33	19,847	18,984
Total exposure to LDC countries	2,742	532	406	609	-	1,521	290
Total exposure to PIIGS countries (d)	1,080	15	14	44	-	172	908

(a) Balance sheet and off-balance sheet credit risk, problematic commercial credit risk, and impaired debts appear before the effect of the provision for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower limitation. This does not include elements of off-balance credit risk.
(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower limitations.
(c) Includes governments, official institutions and central banks.
(d) Exposure to PIIGS countries includes the following countries: Portugal, Ireland, Italy, Greece and Spain.

Country Exposure
Reported Amounts

Exhibit D (cont'd)

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower.

	30 September 2010					
	Balance Sheet Exposure					
	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (a)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities
Country	(NIS millions)					
United States	186	3,044 (c)	11,750 (c)	17,448	7,867	9,581
United Kingdom	-	4,015 (c)	1,401 (c)	5,109	1,775	3,334
France	497	1,621	584	-	-	-
Switzerland	4	314	760	1,282	511	771
Germany	154	2,241	1,255	-	-	-
Others	565	4,983	5,572	1,946	1,054	892
Total country exposure	1,406	16,218	21,322	25,785	11,207	14,578
Total exposure to LDC countries	113	109	1,178	1,893	1,053	840
Total exposure to PIGS countries (d)	183	480	63	-	-	-

	Balance Sheet Exposure		Off - Balance Sheet Exposure			
	Total balance sheet exposure				Cross-Border Balance Sheet Exposure	
		Balance of problematic debts (b)	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)					
Country						
United States	24,561	1,026	11,113	-	6,306	8,674
United Kingdom	8,750	478	8,567	-	2,965	2,451
France	2,702	26	3,087	-	780	1,922
Switzerland	1,849	515 (c)	1,977	-	616	462
Germany	3,650	2	4,792	-	2,068	1,582
Others	12,012	273	3,195	-	5,561	5,559
Total country exposure	53,524	2,320	32,731	-	18,296	20,650
Total exposure to LDC countries	2,240	153	991	-	1,056	344
Total exposure to PIGS countries (d)	726	4	176	-	317	409

(a) Includes governments, official institutions and central banks.
(b) Balances of problematic debts less debts covered by eligible collateral for purposes of per borrower or group borrowers' debt limitation. This does not include elements of off-balance credit risk.
(c) Restated.
(d) Exposure to PIGS countries includes the following countries: Portugal, Ireland, Greece and Spain.

Country Exposure
Reported Amounts

Exhibit D (cont'd)

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower.

	31 December 2010					
	Balance Sheet Exposure					
	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (a)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities
Country	(NIS millions)					
United States	455	2,485	11,288	16,661	7,212	9,449
United Kingdom	18	3,462	1,439	5,502	1,832	3,670
France	1,184	2,022	560	-	-	-
Switzerland	-	350	886	1,266	495	771
Germany	248	2,734	1,237	-	-	-
Others	605	6,076	5,400	1,708	970	738
Total country exposure	2,510	17,129	20,810	25,137	10,509	14,628
Total exposure to LDC countries	103	154	1,186	1,658	969	689
Total exposure to PIGS countries (d)	-	447	40	-	-	-

	Balance Sheet Exposure		Off - Balance Sheet Exposure			
	Total balance sheet exposure				Cross-Border Balance Sheet Exposure	
		Balance of problematic debts (b)	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)					
Country						
United States	23,677	782	11,743	-	6,191	8,037
United Kingdom	8,589	395	7,782	-	2,441	2,478
France	3,766	14	3,226	-	1,257	2,509
Switzerland	2,007	147 (c)	2,314	-	755	481
Germany	4,219	1	4,835	-	2,708	1,511
Others	12,819	237	2,850	-	6,511	5,570
Total country exposure	55,077	1,576	32,750	-	19,863	20,586
Total exposure to LDC countries	2,132	168	688	-	1,117	326
Total exposure to PIGS countries (d)	487	3	65	-	100	387

(a) Includes governments, official institutions and central banks.
(b) Balances of problematic debts less debts covered by eligible collateral for purposes of per borrower or group borrowers' debt limitation. This does not include elements of off-balance credit risk.
(c) Restated.
(d) Exposure to PIGS countries includes the following countries: Portugal, Ireland, Greece and Spain.

Country Exposure

Exhibit D (cont'd):

In accordance with the Directive of the Supervisor of Banks, country exposure is shown on an end-risk basis, as follows:

- The accounting balance of a debt is to be dealt with as the amount of exposure to the legal country of residence of the debtor who bears the end risk after the effect of guarantees, liquid collateral and credit derivatives.
- The accounting balance of an investment in shares is to be dealt with as the amount of exposure to the country of residence of the issuer of the security.
- Off-balance sheet credit risk is shown as an off-balance sheet exposure to the country of residence of the counterparty to the transaction as it was calculated for the purposes of per borrower debt limitation.

From the aspect of determining end-risk, collateral is to be considered as follows:

- Third party guarantees according to the country of residence of the guarantor.
- Securities - The country of residence is that of the issuer of the security.
- The directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.
- For purposes of determining end-risk only specific collaterals were taken into account.

Part B – At 30 September 2011, there was no aggregate balance sheet exposure to foreign countries, of which the individual amount of exposure was between 0.75% and 1% of total consolidated assets or 15%-20% of shareholders' equity, whichever the lower, and at 30 September 2010, the total exposure amounted to NIS 2,255 million, attributed to Holland. At 31 December 2010, the total exposure amounted to NIS 4,165 million attributed to Holland and Belgium.

Part C – The exposure to the foreign countries with liquidity difficulties as defined by Bank of Israel (a country which receives financial assistance from the IMF or its liabilities have a credit rating of CCC or lower) amounts to NIS 1,561 million and relates to 14 countries.

Certification

I, Galia Maor, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 September 2011 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.

3. Based on my knowledge, the quarterly financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and

   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

29 November 2011

Galia Maor
President and Chief Executive Officer

Certification

I, Menachem Schwartz, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 September 2011 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.

3. Based on my knowledge, the quarterly financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and

   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

29 November 2011

Menachem Schwartz
First Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Joint Auditors' Review Report to the Shareholders of Bank Leumi le-Israel B.M.

Introduction

We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. (hereinafter: "the Bank") and its subsidiaries, which comprises the condensed interim consolidated balance sheet as of 30 September, 2011 and the related interim condensed consolidated statements of profit and loss, changes in shareholders' equity and cash flows for the three and nine month periods ending on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for these interim periods in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information on these interim periods based on our review.

We did not review the condensed interim financial information of consolidated companies, whose assets included on consolidation constitute approximately 1.5% of total consolidated assets as of 30 September, 2011 and whose net interest income before expenses for credit losses included in the consolidated statements of profit and loss constitute some 10.7% and some 0.1% of the total consolidated net interest income before expenses for credit losses for the three and nine month periods ending on that date respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and a review standard implementation of which in review of banking corporations was required in guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information was not prepared, in all material respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks.

Without qualifying our above conclusion**,** we draw attention to:

1. that stated in Note 6.C clauses 2 and 4 of the condensed interim financial statements concerning claims against the Bank and against consolidated subsidiaries, including petitions for their approval as class actions.
2. that stated in Note 6.D concerning claims relating to a company included on equity basis and dependence on receipt of services from infrastructure companies and suppliers of natural gas, and negotiations held after the date of the financial statement between the consolidated company and its creditors for the receipt of letters of waiver of compliance with standards and/or changes in the financial ratios determined therein.
3. that stated in Note 6.E concerning the ruling of the Antitrust Commissioner.

The Bank is unable to estimate the effect of the said matters on the Bank, if any, on its financial condition and on its operating results, and whether or not they will be of a material nature.

Kost Forer Gabbay & Kasierer	**Somekh Chaikin**
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

29 November 2011

Condensed Consolidated Balance Sheet as at 30 September 2011
Reported amounts

	Note	30 September 2011 (Unaudited) (NIS millions)	30 September 2010 (Unaudited)	31 December 2010 (Audited)
Assets				
Cash and deposits with banks		**54,662**	40,360	30,052
Securities	2	**38,356**	54,373	55,791
Securities borrowed or purchased under agreement to resell		**1,252**	914	1,190
Credit to the public (a)	3	**241,171**	227,515	234,255
Allowance for credit losses (a)	3	**(3,856)**	(10,297)	(10,274)
Net credit to the public		**237,315**	217,218	223,981
Credit to governments		**403**	385	379
Investments in companies included on the equity basis		**2,350**	1,740	1,924
Buildings and equipment		**3,615**	3,600	3,638
Goodwill (a)		**45**	112	45
Assets in respect of derivative instruments (a)	7	**11,496**	9,444	8,716
Other assets (a) (b)		**3,681**	2,656	2,606
Total assets		**353,175**	330,802	328,322
Liabilities and equity capital				
Deposits of the public		**267,249**	245,820	249,584
Deposits from banks		**6,327**	6,788	2,691
Deposits from governments		**443**	614	660
Securities loaned or sold under agreement to repurchase		**778**	709	1,006
Debentures, bonds and subordinated notes		**28,573**	28,744	26,939
Liabilities in respect of derivative instruments (a)	7	**12,636**	11,183	9,985
Other liabilities (a) (b)		**14,055**	13,264	13,846
Total liabilities		**330,061**	307,122	304,711
Non-controlling interests		**343**	310	318
Equity attributable to shareholders of the banking corporation (b)	4	**22,771**	23,370	23,293
Total equity		**23,114**	23,680	23,611
Total liabilities and equity		**353,175**	330,802	328,322

(a) Comparative figures have been reclassified in order to comply with the method of presentation in the current period. Comparative figures in respect of credit to the public and the allowance for credit losses have not been restated pursuant to implementation of the new directives, and are not comparable with current data.
(b) Restated – see Note 1.B.4 below.

The accompanying notes are an integral part of these Condensed Financial Statements.

David Brodet
Chairman of the
Board of Directors

Galia Maor
President and Chief
Executive Officer

Menachem Schwartz
First Executive Vice President,
Chief Accounting Officer,
Head of Accounting Division

Date of approval of the Financial Statements: 29 November 2011

Condensed Consolidated Statement of Profit and Loss
For the Periods Ended 30 September 2011
Reported Amounts

	Note	For the three months ending 30 September 2011	2010	For the nine months ending 30 September 2011	2010	For the year ending 31 December 2010
		(Unaudited)		(Unaudited)		(Audited)
		(NIS millions)				
Net interest income before expenses in respect of credit losses	9	**1,692**	1,846	**5,582**	5,292	7,433
Expenses in respect of credit losses	3	**378**	46	**349**	372	584
Net interest income after expenses in respect of credit losses		**1,314**	1,800	**5,233**	4,920	6,849
Operating and other income						
Operating commissions		**894**	912	**2,775**	2,733	3,710
Profits (losses) from investments in shares, net	10	**(75)**	14	**(7)**	188	216
Other income		**13**	57	**53**	100	185
Total operating and other income		**832**	983	**2,821**	3,021	4,111
Operating and other expenses						
Salaries and related expenses (b)		**1,248**	1,054	**3,870**	3,463	4,676
Building and equipment maintenance and depreciation		**422**	401	**1,262**	1,172	1,591
Amortization of goodwill (a)		**-**	5	**-**	13	80
Other expenses (a)		**392**	345	**1,093**	1,008	1,604
Total operating and other expenses		**2,062**	1,805	**6,225**	5,656	7,951
Operating profits before taxes		**84**	978	**1,829**	2,285	3,009
Provision for taxes on operating profit (b)		**32**	415	**664**	863	1,239
Operating profit after taxes		**52**	563	**1,165**	1,422	1,770
Group equity in after-tax operating profits of companies included on equity basis		**115**	57	**145**	259	420
Net operating profit						
Before attribution to non-controlling interests		**167**	620	**1,310**	1,681	2,190
Attributable to non-controlling interests		**(11)**	(14)	**(39)**	(29)	(39)
Attributable to shareholders of the banking corporation		**156**	606	**1,271**	1,652	2,151
Net profit (loss) from extraordinary activities after taxes, before attribution to non-controlling interests		**(1)**	-	**2**	186	183
Net Profit for the period						
Before attribution to non-controlling interest		**166**	620	**1,312**	1,867	2,373
Attributable to non-controlling interests		**(11)**	(14)	**(39)**	(29)	(39)
Attributable to shareholders of the banking corporation		**155**	606	**1,273**	1,838	2,334
		(NIS)				
Basic and diluted earnings per share						
Net operating profit attributable to shareholders of the banking corporation (b)		**0.11**	0.41	**0.86**	1.12	1.46
After-tax profit from extraordinary items attributable to shareholders of the banking corporation		**-**	-	**-**	0.13	0.12
Total		**0.11**	0.41	**0.86**	1.25	1.58

(a) Comparative figures have been reclassified in order to comply with the method of presentation in the current period.

(b) Restated – see Note 1.B.4 below.

The accompanying notes are an integral part of these Condensed Financial Statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity
For the Periods Ended 30 September 2011
Reported Amounts

	For the three months ended 30 September 2011 (Unaudited)												
		Capital reserves			Accumulated other comprehensive profit (loss)								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Reserves in respect of companies included on equity basis	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total equity
	NIS millions												
Balance at 30 June 2011 (d)	7,059	1,129	24	8,212	74	(132)	41	14,693	-	(44)	22,844	333	23,177
Net profit for the period	-	-	-	-	-	-	-	155	-	-	155	11	166
Benefit in respect of share-based payment transactions	-	-	(1)	(1)	-	-	-	-	-	-	(1)	-	(1)
Adjustments, net, in respect of companies included on equity basis	-	-	-	-	-	76	(7)	(8)	-	-	61	-	61
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(653)	-	-	-	-	-	(653)	-	(653)
Losses in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	160	-	-	-	-	-	160	-	160
Related tax effect	-	-	-	-	205	-	-	-	-	-	205	-	205
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at the end of the period	7,059	1,129	23	8,211	(214)	(56)	34	14,840	-	(44)	22,771	343	23,114

See footnotes on page 195.

The accompanying notes are an integral part of these Condensed Financial Statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity (cont'd)
Reported Amounts

For the three months ended 30 September 2010 (Unaudited)

	Share capital	Premium (Capital reserves)	Share-based payment transactions and others (a) (Capital reserves)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value (Accumulated other comprehensive profit (loss))	Translation adjustments (b) (Accumulated other comprehensive profit (loss))	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total equity
	NIS millions											
Balance at 30 June 2010 (d)	7,059	1,129	10	8,198	388	(460)	14,512	500	(2)	23,136	292	23,428
Net profit for the period	-	-	-	-	-	-	606	-	-	606	14	620
Dividend declared after balance sheet date	-	-	-	-	-	-	(500)	500	-	-	-	-
Proposed dividend	-	-	-	-	-	-	-	(500)	-	(500)	-	(500)
Release of blocked shares	-	-	-	-	-	-	(20)	-	-	(20)	-	(20)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	327	-	-	-	-	327	4	331
Profits in respect of securities available for sale that were realized and charged to profit and loss	-	-	-	-	(78)	-	-	-	-	(78)	-	(78)
Related tax effect	-	-	-	-	(64)	-	-	-	-	(64)	-	(64)
Translation adjustments for companies included on equity basis	-	-	-	-	-	(38)	-	-	-	(38)	-	(38)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	-	1	1	-	1
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of the period (d)	7,059	1,129	10	8,198	573	(498)	14,598	500	(1)	23,370	310	23,680

See footnotes on page 195.

The accompanying notes are an integral part of these Condensed Financial Statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity (cont'd)
Reported Amounts

For the nine months ended 30 September 2011 (Unaudited)

	Capital reserves				Accumulated other comprehensive profit (loss)								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Reserves in respect of companies included on equity basis	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total equity
	NIS millions												
Balance at 31 December 2010 (Audited) (d)	**7,059**	**1,129**	**10**	**8,198**	**468**	**(460)**	**25**	**15,063**	**-**	**(1)**	**23,293**	**318**	**23,611**
Adjustment of opening balances in respect of change to impaired debts - IFRS (b) (c)	**-**	**-**	**-**	**-**	**-**	**381**	**-**	**(1,090)**	**-**	**-**	**(709)**	**(14)**	**(723)**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,273**	**-**	**-**	**1,273**	**39**	**1,312**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(400)**	**-**	**-**	**(400)**	**-**	**(400)**
Employee benefit in respect of share-based transactions	**-**	**-**	**13**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**-**	**13**
Adjustments in respect of companies included on equity basis, net	**-**	**-**	**-**	**-**	**-**	**23**	**9**	**(6)**	**-**	**-**	**26**	**-**	**26**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**-**	**(1,018)**	**-**	**-**	**-**	**-**	**-**	**(1,018)**	**-**	**(1,018)**
Losses in respect of securities available for sale that were realized and charged to profit and loss	**-**	**-**	**-**	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Related tax effect	**-**	**-**	**-**	**-**	**326**	**-**	**-**	**-**	**-**	**-**	**326**	**-**	**326**
Loans to employees for purchase of shares in the Bank	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(43)**	**(43)**	**-**	**(43)**
Balance at the end of the period	**7,059**	**1,129**	**23**	**8,211**	**(214)**	**(56)**	**34**	**14,840**	**-**	**(44)**	**22,771**	**343**	**23,114**

See footnotes on page 195.

The accompanying notes are an integral part of these Condensed Financial Statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity (cont'd)
Reported Amounts

For the nine months ended 30 September 2010 (Unaudited)

	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total equity
	Capital reserves				Accumulated other comprehensive profit (loss)							
	NIS millions											
Balance at 31 December 2009 (Audited) (d)	7,059	972	197	8,228	309	(474)	13,846	-	(377)	21,532	282	21,814
Net profit for the period	-	-	-	-	-	-	1,838	-	-	1,838	29	1,867
Dividend declared after balance sheet date	-	-	-	-	-	-	(500)	500	-	-	-	-
Proposed dividend	-	-	-	-	-	-	(500)	-	-	(500)	-	(500)
Employee benefit - tax effect	-	-	(30)	(30)	-	-	-	-	-	(30)	-	(30)
Release of blocked shares	-	157	(157)	-	-	-	-	-	-	-	-	-
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	615	-	-	-	-	615	1	616
Profits in respect of securities available for sale that were realized and/or charged to profit and loss	-	-	-	-	(206)	-	-	-	-	(206)	-	(206)
Related tax effect	-	-	-	-	(145)	-	-	-	-	(145)	-	(145)
Adjustments in respect of companies included on equity basis	-	-	-	-	-	(24)	(86)	-	-	(110)	-	(110)
Loans to employees for purchase of shares in the Bank	-	-	-	-	-	-	-	-	376	376	-	376
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Balance at the end of the period (d)	7,059	1,129	10	8,198	573	(498)	14,598	500	(1)	23,370	310	23,680

See footnotes on page 195.

The accompanying notes are an integral part of these Condensed Financial Statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity (cont'd)
Reported Amounts

	For the year ended 31 December 2010 (Audited)												
		Capital reserves			Accumulated other comprehensive profit (loss)								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Reserves in respect of companies included on equity basis	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total	Non-controllin g interests	Total equity
	NIS millions												
Balance as at 31 December 2009 (Audited)	7,059	972	197	8,228	309	(474)	-	13,846	-	(377)	21,532	282	21,814
Net profit for the year (d)	-	-	-	-	-	-	-	2,334	-	-	2,334	39	2,373
Expiry of options	-	157	(157)	-	-	-	-	-	-	-	-	-	-
Employee benefit - tax effect	-	-	(30)	(30)	-	-	-	-	-	-	(30)	-	(30)
Dividend paid	-	-	-	-	-	-	-	(500)	-	-	(500)	-	(500)
Proposed dividend	-	-	-	-	-	-	-	(500)	-	-	(500)	-	(500)
Adjustments, net, in respect of companies included on equity basis	-	-	-	-	-	14	25	(117)	-	-	(78)	-	(78)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	538	-	-	-	-	-	538	-	538
Profits in respect of securities available for sale that were realized and charged to profit and loss	-	-	-	-	(303)	-	-	-	-	-	(303)	-	(303)
Related tax effect	-	-	-	-	(76)	-	-	-	-	-	(76)	-	(76)
Loans to employees for purchase of shares in the Bank	-	-	-	-	-	-	-	-	-	376	376	-	376
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(3)	(3)
Balance as at 31 December 2010 (d)	7,059	1,129	10	8,198	468	(460)	25	15,063	-	(1)	23,293	318	23,611

(a) Including NIS 10 million of other capital reserves.
(b) Adjustments arising from translation of the financial statements of foreign subsidiaries, whose operating currency is different from the operating currency of the Bank. In 2011, translation adjustments were transferred to retained earnings pursuant to the change in reporting according to IAS 21, in the amount of NIS 381 million.
(c) Including NIS 721 million in respect of the change to implementation of the Impaired Debts Directive (NIS 1,319 million gross). See also Note 3.D below.
(d) Restated. For further details, see Note 1.B.4 below.

The accompanying notes are an integral part of these Condensed Financial Statements.

Consolidated Statements of Cash Flows
For the Periods Ended 30 September 2011
Reported amounts

	For the three months ending 30 September		For the nine months ending 30 September		For the year ending 31 December
	2011	2010	**2011**	2010	2010
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Cash flows generated by operating activities:					
Net profit for the year (c)	**166**	620	**1,312**	1,867	2,373
Adjustments required to cash flows generated by operating activities:					
Equity in undistributed profits of companies included on equity basis (a)	**(114)**	(54)	**(95)**	(213)	(348)
Benefit in respect of share-based payment transactions	**-**	-	**13**	-	-
Depreciation of buildings and equipment	**173**	160	**531**	473	638
Amortization	**-**	5	**-**	13	80
Expenses in respect of credit losses	**378**	46	**349**	372	584
Provision for impairment in assets transferred to the Group's ownership	**3**	1	**9**	3	14
Net loss (gain) on sale of securities available for sale	**158**	(78)	**6**	(212)	(310)
Realized and unrealized gain from adjustment to fair value of securities held for trading	**(202)**	(24)	**(183)**	(210)	(148)
Gain on receipt of shares without payment	**-**	-	**-**	-	(2)
After-tax profit on realization of investments in subsidiaries and companies included on equity basis	**-**	-	**-**	(182)	(181)
Net losses (gains), after tax, on sale of buildings and equipment	**1**	-	**2**	(4)	(2)
Provision for impairment of debentures available for sale	**1**	-	**1**	5	6
Provision for impairment of shares available for sale	**1**	-	**3**	1	1
Decrease in provision in connection with fixed assets	**-**	-	**(4)**	-	-
Deferred taxes , net (c)	**46**	15	**32**	(98)	(68)
Increase (decrease) in excess of provisions for severance pay and pensions over amounts funded (c)	**285**	(14)	**678**	221	234
Other, net	**3**	1	**4**	2	3
Net cash generated by operating activities	**899**	678	**2,658**	2,038	2,874

(a) Net of dividend received.

(b) Comparative figures have been reclassified in order to comply with the method of presentation in the current period.

(c) Restated – see Note 1.B.4 below.

The accompanying notes are an integral part of these Condensed Financial Statements.

Consolidated Statements of Cash Flows (cont'd)

For the Periods Ended 30 September 2011

Reported amounts

	For the three months ending 30 September		For the nine months ending 30 September		For the year ending 31 December
	2011	2010	**2011**	2010	2010
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Cash flows generated by activities in assets					
Net decrease (increase) in deposits with banks for an initial period exceeding three months	**(67)**	396	**482**	1,287	1,330
Acquisition of debentures held to maturity	**-**	-	**-**	(77)	(77)
Proceeds from redemption of debentures held to maturity	**-**	-	**-**	226	226
Acquisition of securities available for sale	**(3,735)**	(11,709)	**(11,894)**	(21,547)	(30,511)
Proceeds from sale of securities available for sale	**4,943**	3,374	**24,778**	11,503	16,038
Proceeds from redemption of securities available for sale	**1,371**	5,321	**5,428**	13,532	14,668
Net decrease (increase) in securities held for trading	**(1,102)**	150	**(917)**	315	1,355
Net increase in credit to the public	**(9,304)**	(4,734)	**(15,669)**	(12,879)	(19,242)
Net decrease (increase) in credit to governments	**(51)**	11	**(24)**	22	28
Acquisition of shares in companies included on equity basis	**-**	-	**(109)**	(6)	(14)
Proceeds of realization of investment in companies included on equity basis	**-**	-	**-**	766	765
Acquisition of buildings and equipment	**(178)**	(208)	**(545)**	(537)	(719)
Net decrease (increase) in securities borrowed or purchased under agreements to resell	**78**	(189)	**(62)**	(170)	(446)
Proceeds from sale of buildings, net of related taxes	**-**	4	**6**	19	24
Proceeds from realization of assets transferred to Group ownership	**3**	7	**6**	7	8
Repayment of shareholders' loans to a company included on equity basis	**-**	-	**1**	-	2
Increase, net, in assets in respect of derivative instruments (a)	**(3,733)**	(1,140)	**(2,780)**	(2,965)	(2,238)
Decrease (increase), net, in other assets (a)	**140**	72	**(476)**	614	812
Net cash used for activities in assets	**(11,635)**	(8,645)	**(1,775)**	(9,890)	(17,991)
Cash flows generated by activities in liabilities and capital					
Net increase (decrease) in:					
Deposits of the public	**14,545**	(5,857)	**17,665**	(4,598)	(834)
Deposits from banks	**965**	3,500	**3,636**	3,003	(1,094)
Deposits from governments	**-**	(295)	**(217)**	(98)	(52)
Issue of debentures, bonds and subordinated notes	**1,420**	1,700	**1,420**	4,000	4,075
Redemption of debentures, bonds and subordinated notes	**(42)**	(23)	**(421)**	(795)	(2,834)
Dividend paid to minority shareholders of consolidated companies	**-**	-	**-**	(2)	(3)
Net increase (decrease) in other liabilities (a) (b)	**(176)**	893	**798**	679	1,252
Net increase (decrease) in securities loaned or sold under agreements to repurchase	**(13)**	(31)	**(228)**	436	733
Net increase in liabilities in respect of derivative instruments (a)	**3,068**	1,655	**2,501**	3,565	2,440
Dividend paid to shareholders	**-**	-	**(900)**	-	(500)
Repayment of loans to employees for purchase of the Bank's shares	**-**	1	**-**	376	376
Loans to employees for purchase of the Bank's shares	**-**	-	**(43)**	-	-
Net cash generated by activities in liabilities and capital	**19,767**	1,543	**24,211**	6,566	3,559
Increase (decrease) in cash	**9,031**	(6,424)	**25,094**	(1,286)	(11,558)
Balance of cash at beginning of period	**44,760**	45,393	**28,697**	40,255	40,255
Balance of cash at end of period	**53,791**	38,969	**53,791**	38,969	28,697

(a) Comparative figures have been reclassified in order to comply with the method of presentation in the current period.

(b) Restated – See Note 1.B.4 below.

The accompanying notes are an integral part of these Condensed Financial Statements.

Consolidated Statements of Cash Flows (cont'd)

For the Periods Ended 30 September 2011
Reported amounts

Appendix A - Transactions not involving cash flows:

In the period of three months ending 30 September 2011:

(1) During the period, securities were transferred from credit to the public to the available-for-sale portfolio, in the amount of NIS 14 million, due to the conclusion of loaning of securities.
(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 1 million, in respect of loans that were repaid.

In the period of three months ending 30 September 2010:

(1) Proposed dividend in the amount of NIS 500 million.
(2) During the period, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 69 million, due to loaning of securities.
(3) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 1 million, in respect of loans that were repaid.

In the period of nine months ending 30 September 2011:

(1) During the period, securities were transferred from credit to the public to the available-for-sale portfolio, in the amount of NIS 782 million, due to the conclusion of loaning of securities.
(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 4 million, in respect of loans that were repaid.

In the period of nine months ending 30 September 2010:

(1) Proposed dividend in the amount of NIS 500 million.
(2) During the year, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 40 million, due to loaning of securities.
(3) During the year, assets were transferred from credit to the public to other assets in the amount of NIS 3 million, in respect of loans that were repaid.

In 2010:

(1) Proposed dividend in the amount of NIS 500 million (paid 27 January 2011).
(2) During the year, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 651 million, due to loaning of securities.
(3) During the year, assets were transferred from credit to the public to other assets in the amount of NIS 16 million, in respect of loans that were repaid.
(4) During the year, fixed assets were acquired against liabilities to suppliers in the amount NIS 26 million.

The accompanying notes are an integral part of these Condensed Financial Statements.

Note 1 - Significant Accounting Policies

A. The Condensed Consolidated Interim Financial Statements as at 30 September 2011 have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with the directives and instructions of the Supervisor of Banks regarding the preparation of quarterly financial statements of a banking corporation. The accounting principles used in preparing the interim reports are consistent with those used in preparing the audited Financial Statements as at 31 December 2010, apart from that stated in paragraph B below. These Statements should be read in conjunction with the Annual Financial Statements as at 31 December 2010 and for the year ended on that date, and their accompanying Notes.

B. Initial Implementation of Accounting Standards, Updates to Accounting Standards, and Directives of the Banking Supervision Department

As of reporting periods commencing 1 January 2011, the Bank implements the accounting standards and directives set out below:

- Directives of the Banking Supervision Department on the subject of measurement and disclosure of impaired debts, credit risk and allowance for credit losses, and an amendment to directives on the treatment of problem debts, including Accounting Standards Update ASU 2011-02 – "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring".

- Certain International Financial Reporting Standards (IFRS) and the interpretations of the IFRIC Interpretations Committee relating to the implementation of these standards.

- US Financial Accounting Standard FAS 157 (ASC 820-10) - "Fair Value Measurements", and US Financial Accounting Standard FAS 159 (ASC 825-10) - "Fair Value Alternative for Financial Assets and Financial Liabilities".

- Directives of the Banking Supervision Department on strengthening the internal control over financial reporting of employee rights.

Following the initial implementation of certain accounting standards and directives of the Banking Supervision Department (see E. below), certain items in the framework of the financial statements and comparative figures have been reclassified in order to adapt them to headings of paragraphs and reporting requirements in the current period. In particular, the following have been reclassified:

Items included in the Condensed Consolidated Balance Sheet:

Goodwill in the sum of NIS 112 million and NIS 45 million, which were included under other items in the balance sheets as at 30 September 2010 and 31 December 2010 respectively, are shown in the balance sheet as at 30 September 2011 as a separate item.

Assets in respect of derivative instruments in the sum of NIS 9,444 million and NIS 8,716 million, which were included under other assets in the balance sheets as at 30 September 2010 and 31 December 2010 respectively, have been presented in the balance sheet as at 30 September 2011 as a separate item.

Liabilities in respect of derivative instruments in the sum of NIS 11,183 million and NIS 9,985 million, which were included under other liabilities in the balance sheets as at 30 September 2010 and 31 December 2010 respectively, have been presented in the balance sheet as at 30 September 2011 as a separate item.

Data for credit to the public, net, as at 30 September 2010 and 31 December 2010, have been reclassified in order to adapt them for reporting as a gross item as of 1 January 2011.

Items included in the Condensed Statement of Profit and Loss:

Expenses in respect of impairment of goodwill in the sum of NIS 5 million and NIS 13 million, have been reclassified from other expenses and presented as a separate item for the periods of three and nine months ending 30 September 2010 respectively. In addition, an amount of NIS 80 million has been classified as stated in the year ending 31 December 2010.

Below are the main changes made in accounting policy for these condensed quarterly financial statements with reference to the annual report:

1. Directives of the Banking Supervision Department on Measurement and Disclosure of Impaired Debts, Credit Risk and Allowance for Credit Losses, and Amendment to Directives on the Treatment of Problem Debts.

Pursuant to the new directive of the Supervisor of Banks on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk and Allowance for Credit Losses", the Bank implements, as of 1 January 2011, the relevant US accounting standards (ASC 310) and Staff Positions of US banking supervisory authorities and the US Securities and Exchange Commission, as adopted in the Public Reporting Directives.

Credit to the public and other debt balances:

The directive has been implemented with regard to all debt balances, including credit to the public, deposits in banks, bonds, securities borrowed or purchased under resale agreements, credit to the government.

Credit to the public and other debt balances to which the rules of the directive apply for measurement and recognition for the provision for impairment are reported in the books of the Bank according to the recorded debt balance.

The recorded debt balance is defined as the balance of the debt, after deducting accounting write-offs, but before deduction of the allowance for credit losses in respect of that debt.

Allowance for credit losses:

The Bank is required to maintain an allowance for credit losses at a level appropriate to cover expected credit losses relating to their loan portfolio, including in respect of off-balance sheet credit risk. Allowances for credit losses include:

- Individual allowance for credit losses – The allowance is based on the measurement of the impairment of the debt, based on the present value of future expected cash flows, discounted at the effective rate of interest of the debt; or, when a debt is dependent on collateral or when an asset is expected to be seized, according to the fair value of the collateral pledged to secure such credit (less costs of sale). The need for an individual allowance is assessed for each debt whose contractual balance (without deducting: accounting write-offs not involving a legal waiver, interest not recognized, allowances for credit losses, and collateral) is NIS 1.0 million or more, and any other debt identified for individual assessment by the Bank. In some of the consolidated subsidiary companies, the assessment is made also for lower amounts. The individual allowance is calculated for each debt classified as impaired (see below).

- Group allowance for credit losses – This is implemented for allowances for impairment for large groups of relatively small and homogeneous debts, and in respect of debts that have been assessed individually and found not to be impaired. Measurement of credit losses, on balance sheet credit and on off-balance sheet credit instruments, is performed based on an estimate of rates of past credit losses of each homogeneous group of debts with similar risk characteristics. The allowance assessed on a group basis for off-balance sheet credit instruments is based in the rates of allowance determined for balance sheet credit, taking into account the percentage of off-balance sheet credit risk expected to be realized. The credit realization percentage is calculated by the Bank based on credit conversion coefficients as set out in Proper Conduct of Banking Business Directive No. 203 – Measurement and Adequacy of Capital – Credit Risk – Standardized Approach, with certain adjustments in cases where the Bank has prior experience indicating percentages for the realization of credit.

A temporary directive was issued for the years 2011-2012 (hereinafter: "the transitional period"), which contains a simpler model for calculating credit loss allowances on a group basis. According to the temporary directive, the rate of allowances for credit losses on a group basis will be determined for the transitional period based on the range of historical rates for provisions for doubtful debts during the years 2008-2010, segmented by sector of the economy, as well as on the actual rate of net accounting write-offs as of 1 January 2011. In addition to calculating the range of historical rates in the various sectors of the economy as mentioned above, the Bank, for purposes of determining the appropriate rate of the provision, takes into account other data, including trends in the volume of credit in each sector and the conditions of the sector, macroeconomic data, a general assessment of the quality of credit to sectors of the economy, changes in volume and the trend of balances in arrears and impaired balances, and the effect of the changes on credit concentrations.

Classification of debts:

The Bank classifies all of its problem debts and off balance-sheet credit items, as follows:

- Impaired debt – This is credit in respect of which the banking corporation anticipates that it cannot collect the entire amount due, according to the contractual terms of the loan agreement, and for which the allowance for credit losses is measured by way of an individual allowance. The above classification is to be applied also for credit in arrears of more than 90 days, restructured debts, and on current account balances in an over-limit situation, which are defined as problem debts in arrears. Debts after restructuring, including those which prior to the restructuring were assessed on a group basis, are to be classified as an impaired debt and assessed on an individual basis for purposes of making an allowance for credit losses or an accounting write-off. In view of the fact that the debt in respect of which a problem debt restructuring was carried out will not be repaid in accordance with its original contractual terms, the debt continues to be classified as an impaired debt even after the debtor returns to a repayment schedule under the new terms, for a period of at least six months.

- Substandard credit risk – This is defined as credit which is insufficiently protected by the present established value and the debtor's repayment ability, or by the pledged collateral, and regarding which there is a distinct possibility that the banking corporation will suffer some loss if the deficiencies are not remedied.

Recognition of income:

In respect of impaired debts, except for certain impaired debts after restructuring, interest income is not to be recorded (not including index-linkage and foreign currency linkage differentials added to the principal). In addition, income which was recognized on periods prior to the impairment date but not yet collected should be cancelled. Regarding debts assessed and provided for on a group basis, which are in arrears of 90 days or more, the Bank continues to accrue interest income.

Restructuring a Problem Debt:

In April 2011, the FASB published Accounting Standards Update ASU 2011-02 – "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring". According to the US Standard on the subject (ASC 310), a problem (troubled) debt restructuring is a debt that went through a formal debt restructuring, in the course of which – for economic or legal reasons relating to the financial difficulties of the debtor – the Bank granted a waiver to the borrower.

The update provides additional instructions clarifying when a debt restructuring is to be considered a problem debt restructuring in which a waiver was granted by the creditor as explained below.

A debt which formally underwent a problem debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to the debtor's financial difficulties, the Bank granted a waiver by way of modification of the terms of debt, in order to alleviate the burden for the debtor of near-term cash payments or by way of receipt of other assets as payment of the debt. For purposes of determining whether a debt agreement executed by the Bank comprises a problem debt restructuring, the Bank performs a qualitative examination of the totality of the terms of the arrangement and the circumstances under which it was made, in order to determine whether (1) the debtor is in financial difficulties and (2) the Bank granted a waiver under the arrangement to the debtor.

In order to determine whether the debtor is in financial difficulties, the Bank examines whether there are signs that point to the fact that the borrower is in difficulties at the time of the arrangement or the existence of a reasonable possibility that the borrower will get into financial difficulties if not for the arrangement.

The Bank examines, *inter alia*, the existence of one or more of the following circumstances:

- at the time of the debt arrangement the borrower is in default, including when any other debt of the borrower is in default; with regard to debts which at the time of the arrangement are not in arrears, the Bank estimates if according to the current repayment ability it is likely that in the foreseeable future the borrower will get into a default situation, and will not meet the original contractual terms of the debt;
- the debtor was declared bankrupt,
- is under receivership, or there are significant doubts as to the borrower's continued existence as a going concern;
- and that without changing the terms of the debt, the debtor will not be able to raise debt from other sources at market rates of interest for debtors not in default.

  The Bank will conclude that the debtor was granted a waiver under the arrangement, even if under the arrangement an increase was made in the contractual interest rate, if one or more of the following situations exists:

- as a result of restructuring, the Bank is not expected to collect all amounts outstanding (including accrued interest according to the contractual terms);
- the updated fair value of the collateral, in respect of debts conditional on collateral, does not cover the contractual balance of the debt and indicates the inability to collect all amounts due;
- the debtor has no possibility of raising resources at the rate prevailing in the market for a debt with terms and characteristics such as those of the debt granted under the arrangement.

In addition, the Bank will not classify debt as a restructured problem debt if, under the arrangement, the debtor was granted a stay of payments that is not material, given the frequency of the payments in the contractual repayment period and the expected duration of the original debt. In this regard, if several arrangements were made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of the previous arrangements for the purpose of determining whether the stay of payments is not material.

Restructured debts, including those that prior to the restructuring were examined on a group basis, will be classified as impaired debt and will be evaluated on an individual basis for purposes of making an allowance for credit losses, or an accounting write-off. Given that the debt for which the problem debt restructuring was carried out will not be paid in accordance with its original contractual terms, the debt continues to be classified as impaired debt, even after the debtor returns to the repayment schedule in accordance with the new terms.

The rules set out in the ASU for identifying arrangements to be defined as problem debt restructuring, were adopted by the Banking Supervision Department and came into effect for reporting periods commencing after 15 June 2011 (i.e. as of 1 July 2011) and are applicable for purposes of determining if the restructuring represents a problem debt restructuring with regard to any debt arrangement as of 1 January 2011. Changes in the method of measurement of the allowance for credit losses were applied prospectively.

Initial implementation had no material effect on the results of the Bank.

Accounting write-off:

- The Bank writes off in the accounts any debt considered uncollectible, or a debt which the Bank has made efforts to collect over an extended period.

- The Bank writes off in the accounts immediately against the allowance for credit losses of any part of a debt which exceeds the value of the collateral, which is identified as uncollectible.

- The Bank does not postpone the accounting write-off for a debt in respect of which individual allowances for credit losses have been made. Generally, the write-off should be after two years.

- The Bank writes off problem debts in respect of which the allowance is measured based on a group allowance for credit losses when the period of arrears exceeds 150 days.

It should be explained that accounting write-offs do not involve a legal waiver, and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

The directive was implemented on a prospective basis as of 1 January 2011.

At the time of initial implementation, the Bank was required, *inter alia*:

- To write off in the accounts any debt that at that date meets the conditions for being written off in the accounts.

- To classify as special mention, substandard, or impaired, any debt that meets the conditions for such classification.

- To cancel all interest income which has accumulated at the date of implementation of the directive but not yet collected, in respect of any debt which at that date meets the relevant conditions.

- Differences generated at the date of initial implementation of the new instructions, between the balance of allowances for credit losses under existing instructions, and their balance calculated under the new instructions, were charged to retained earnings in shareholders' equity.

- With the aim of adapting the definitions and terms included in Proper Conduct of Banking Business Directive No. 315, on the subject of "Supplementary provision for doubtful debts", to the terms included in the new directives, effective 1 January 2011, the term "problem debts" will be changed to "Credit risk under negative classification and credit risk under special mention", and will include three types of debts as mentioned above: "impaired debts", "substandard debts" and "special mention debts".

  The supplementary provision serves only as an indicator regarding the group allowance so that if the amount of the total group allowance is less than the supplementary and general provision, provision is to be made for the higher of the two calculations.

The rates of supplementary provision applying to the various types of problem debts will be as follows:

- Credit risk "under special mention" – 1%
- "Substandard" credit risk – 2%
- "Impaired" credit risk – 4%

The effect of initial implementation in the sum of about NIS 1,319 million before tax and some NIS 721 million after tax have been recorded as a reduction in retained earnings as at 1 January 2011.

2. Adoption of International Financial Reporting Standards (IFRS)

As of 1 January 2011, the Bank implements the international financial reporting standards, in matters that are not in the core banking business, as included in the Public Reporting Directives of the Supervisor of Banks, as detailed below:

Reporting Standard	**Subject**
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 33	Earnings per Share
IFRS 2	Share-based Payment
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 34	Interim Financial Reporting
IFRS 3 (2008)	Business Combinations
IAS 27 (2008)	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates (Equity Basis)
IAS 36	Impairment of Assets
IAS 17	Leases
IAS 16	Fixed Assets
IAS 40	Investment Property
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IAS 10	Events after the Reporting Period
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 31	Interests in Joint Ventures
IAS 38	Intangible Assets

The international financial reporting standards listed above were adopted in accordance with the following principles (unless determined otherwise by the Supervisor of Banks):

- In cases where material matters are not specifically addressed by the standards or interpretations, or there are a number of alternatives for the treatment of a material matter, banking corporations shall act according to specific implementation instructions established by the Supervisor;

- In cases where a material issue arises which is not resolved in the International Financial Reporting Standards or in the implementation instructions of the Supervisor, banking corporations shall treat the issue according to accounting principles generally accepted by US banks specifically applicable to these matters;

- Where an International Standard contains a reference to another International Standard adopted in the Public Reporting Directives, the banking corporation shall act in accordance with the provisions of the International Standard;

- Where an International Standard contains a reference to another International Standard not adopted in the Public Reporting Directives, the banking corporation shall act in accordance with the Reporting Directives and with generally accepted accounting principles in Israel;

- Where an International Standard contains a reference to the definition of a term defined in the Public Reporting Directives, the reference to the definition in the Directives shall replace the original reference.

The Bank implements the above International Financial Reporting Standards and related interpretations as of 1 January 2011. The initial implementation of the International Financial Reporting Standard adopted in this circular was performed in accordance with transitional directives established in the International Financial Reporting Standard, including the retroactive adjustment of comparative figures if required by the specific Standard.

(1) The implications on the financial statements of adopting International Financial Reporting Standards on subjects that are not a core part of the business, are not material.

Business Combinations (IFRS 3) (2008), Consolidated and Separate Financial Statements (IAS 27), and *Investments in Associates (Equity Basis)* (IAS 28)

Pursuant to the instructions of the Supervisor of Banks, the Group adopted the relief provided in IFRS 1 – Initial Implementation of International Financial Reporting Standards. Accordingly, the Group does not implement IFRS 3 (2008) retroactively with regard to business combinations, acquisitions of companies included on equity basis, acquisitions of companies under joint control, and acquisitions of minority interests occurring prior to 1 January 2011. Thus, for acquisitions occurring prior to 1 January 2011, goodwill recognized and surplus costs generated represent the amounts recognized in accordance with the Public Reporting Directives of the Supervisor of Banks.

As of 1 January 2011, the Group recognizes goodwill at the acquisition date at the fair value of the proceeds paid, including amounts recognized in respect of any rights not conferring control over an acquiree, as well as the fair value at the acquisition date of equity rights in the acquire that were held prior to then by the acquirer, after deducting the net amount attributable on acquisition to identifiable assets that were acquired and liabilities that were assumed, including a contingent liability assumed in a business combination if there already exists a liability deriving from past events and whose fair value can be measured in a reliable manner.

Costs of a transaction which is taking place as a result of a business combination transaction are charged immediately to profit and loss.

In the event the Group carries out an acquisition at an advantageous price (an acquisition generating negative goodwill), it recognizes the profit generated as a result in the profit and loss statement at the acquisition date, after carrying out an additional examination of the amounts attributed to the assets and liabilities of the entity acquired.

There was no material effect as a consequence of the initial implementation of the above Standards.

IAS 21 – The Effects of Changes in Foreign Exchange Rates

Transactions in foreign currency

Transactions in foreign currency are translated into the relevant functional currencies of the Bank and its offices, at the exchange rate in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate in effect on that date. Exchange-rate differences in respect of monetary items is the difference between the adjusted cost in the functional currency at the beginning of the year, after adjustment for effective interest and payments during the year, and the adjusted cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency at the exchange rate in effect on the date on which the fair value is determined. Exchange-rate differences arising from the translation into the functional currency are recognized in profit and loss, with the exception of differences arising from the translation into the functional currency of non-monetary equity financial instruments classified as available for sale, financial liabilities hedging investments in foreign operations, loans to foreign operations constituting part of the net investment in the foreign operation, or hedges of cash flows, which are recognized in other comprehensive income. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate prevailing on the date of the transaction.

Foreign operations

Assets and liabilities of foreign operations, including goodwill and adjustments to fair value created in acquisition, were translated into NIS, at the exchange rates in effect at the reporting date. Income and expenses of foreign operations were translated into NIS at the exchange rates in effect on the dates of the transactions.

Exchange rate differences in respect of the translation are recognized in other comprehensive income as of 1 January 2011, the date of adoption of IAS 21 – "The Effects of Changes in Foreign Exchange Rates", and reported under equity in a foreign operations translation adjustments fund (hereinafter: "translation adjustments").

When a foreign operation is a subsidiary not wholly owned by the Group, the relative share of the exchange rate differences in respect of the foreign operation is allocated to non-controlling interests.

On the disposal of a foreign operation, leading to loss of control, significant influence, or joint control, the cumulative amount in the translation adjustments fund deriving from the foreign operation is reclassified to profit and loss as part of the profit or loss on disposal.

When there is a decrease in the percentage held by the Group in a subsidiary company which includes a foreign operation, while retaining control of the subsidiary company, the relative share of the cumulative amount of exchange rate differences recognized in other comprehensive income is reattributed to non-controlling interests.

When the Group disposes of part of the investment that is a company included on equity basis or an entity under joint control which includes a foreign operation, while retaining significant influence or joint control, the relative share of the cumulative amount of exchange rate differences is reclassified to profit and loss.

When the repayment of loans received or granted to a foreign operation is not planned or expected in the foreseeable future, profits and losses from exchange rate differences deriving from these monetary items are included as part of the net investment in the foreign operation, recognized in other comprehensive profit, and reported under equity as part of the translation adjustments fund.

Pursuant to the instructions of the Supervisor of Banks, prior to the adoption date of IFRS, an overseas unit of a banking corporation was classified as a foreign operation whose functional currency is the same as the functional currency of the banking corporation. In accordance with IFRS, in order to determine the functional currency, the banking corporation has to consider, *inter alia*, the following factors:

- The currency that mainly influences sale prices for goods and services (this will often be the currency in which sales prices for goods and services are denominated and settled), and the currency of the country whose competitive forces and regulations mainly determine the sale prices of its goods and services.

- The currency that mainly influences labor, material and other costs of providing goods or services. This will often be the currency in which such costs are denominated and settled.

- Additional factors that may provide evidence of an entity's functional currency, such as the currency in which funds from financing activities are generated, and the currency in which receipts from operating activities are usually retained.

- The relationship of the overseas unit with the banking corporation – whether the foreign operation has a significant degree of autonomy; whether transactions of the overseas unit with the banking corporation are a high or low proportion of the foreign operation's activities; whether cash flows of the foreign operation directly affect the cash flows of the banking corporation and are readily available for remittance to it; and whether cash flows from the foreign operation are sufficient to service existing and normally expected debt obligations of the entity, without funds being made available by the banking corporation.

Based on an examination of these criteria, it was decided that the functional currency of certain overseas banking entities is not the same as the Israel shekel. That said, changing the classification of an overseas banking entity as an entity whose functional currency is different from the Israel shekel requires receipt of a pre-ruling from the Manager of the Financial Reporting Unit at the Banking Supervision Department. Until such pre-ruling is received, the Bank continues to treat the overseas banking units as foreign operations whose functional currency is the same as the Israel shekel.

Pursuant to the instructions of the Supervisor of Banks regarding the manner of initial implementation, the Standard has been implemented as of the financial statements for periods commencing 1 January 2011. In light of this, a debit capital reserve of translation differences in the sum of NIS 381 million, which were accumulated until 1994 in respect of overseas banking entities, classified previously as autonomous entities, has been classified on the date of transition to retained earnings.

IAS 17 – Leases

Leases, including leases of land from the Israel Land Authority or other third parties, where the Group materially bears all the risks and returns from the property, are classified as finance leases. At the commencement of the initial lease term, leased assets are recognized at an amount equal to the lower of fair value and the present value of future minimum lease payments. Future payments for exercising an option to extend the period of the lease with the Israel Land Authority are not recognized as part of the asset and related liability to the extent their amount is derived from the fair value of the land at future renewal dates of the lease agreement. After initial recognition, the asset is dealt with in accordance with accepted accounting policy regarding this asset. The asset is amortized over the term of the lease, and the liabilities are recognized at adjusted cost in accordance with the effective interest method.
The effect of implementation is expressed in amortization of properties over the term of the lease in the sum of about NIS 23 million.

The other leases are classified as operating leases, and the leased assets are not recognized in the Group balance sheet.

IAS 38 – Intangible Assets

Software costs

Software purchased by the Bank is measured at cost less accrued depreciation and impairment losses.

Costs related to software development or adjustment for the Bank's own use will be capitalized if and only if: the development costs can be reliably measured; the software is technically and commercially applicable; future economic benefits are expected; and the Bank has the intention and sufficient resources to complete the development and use the software. Costs recognized as intangible assets will include direct materials' costs and direct workers' wages. These costs are measured at cost less accrued depreciation and impairment losses. Overhead costs which cannot be directly attributed to software development and costs in the research stage will be recognized as expenses when they are created.

Amortization

Amortization will be included in the profit and loss according to the straight line method over an estimate of the useful life of intangible assets, including software assets, as from the date when the assets are available for use.

Intangible assets created in the Bank (such as software under development) are not systematically amortized as long as they are not available for use. Therefore, impairment of these intangible assets is examined at least once a year, until they become available for use.

Subsequent expenditure

Subsequent expenditure will be recognized as an intangible asset only if it increases the future economic benefit embodied in the asset for which it was borne. Other costs, including costs related to goodwill or brands developed by the Bank, will be charged to profit and loss when they are created.

Goodwill recognized in the framework of a business combination in subsequent periods, is measured according to cost after deducting impairment losses generated, and is not amortized systematically. The measurement of the impairment is examined at least once a year.

There was no material effect from initial implementation.

3. US Financial Accounting Standard FAS 157 (ASC 820-10) – "Fair Value Measurements" (hereinafter "FAS 157") and US Financial Accounting Standard FAS 159 (ASC 825-10) – " the Fair Value Alternative" (hereinafter: "FAS 159")

FAS 157 defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation.

Fair value is defined as the amount that would be received from the sale of an asset or that would be paid to transfer a liability in a transaction between a willing seller and a willing buyer at the measurement date. The Standard stipulates, *inter alia*, the need for fair value valuation, to make optimum use as far as possible of observable inputs, and to minimize the use of unobservable inputs. Observable inputs provide information available to the market received from independent sources, whereas unobservable inputs reflect assumptions by the banking corporation. FAS 157 stipulates a hierarchy of measurement techniques based on the question if the inputs used for purposes of determining fair value are observable or unobservable. These types of input create a fair value hierarchy detailed as follows:

Level 1 inputs: quoted prices (not adjusted) in active markets for identical assets or liabilities.

Level 2 inputs: prices quoted for similar assets or liabilities in active markets; prices quoted for identical assets or liabilities in inactive markets; prices derived from evaluation methods in which all the significant inputs are observable in the market, or are supported by observable market data.

Level 3 inputs: unobservable inputs for the asset or the liability deriving from evaluation model for which one or more of the significant inputs are not observable.

This hierarchy requires the use of observable market data. When this is possible, the Bank considers relevant observable data in its evaluation, the scope and frequency of the transactions, the size of the bid-ask margin, and the size of adjustment required when comparing similar transactions, are all factors taken into account when determining market liquidity and the relevance of observable prices in those markets.

The implementation of the rules set forth in FAS 157 requires the cessation of the use of the blockage factor in calculating fair value, and replaced those directives prohibiting the recognition of day-one gains and requiring that the fair value of derivative instruments not traded on an active market be determined according to the transaction price.

FAS 157 requires the banking corporation to reflect credit risk and other risks of the bank in the measurement of the fair value of debt, including derivative instruments, issued by the banking corporation and measured at fair value.

Methods of assessment implemented by the banking corporation for measuring fair value are to take into consideration the relevant circumstances for the various transactions, including prices of recent transactions in the market, indicative prices of assessment services, and the results of back-testing of similar types of transactions.

Pursuant to transitional directives for 2011, which were extended also for 2012, specific instructions were given concerning data used in calculating the fair value of derivative instruments. In addition, it was decided that for quarterly and annual financial statements in 2011, a banking corporation is not required to use complex models that include various scenarios of potential exposure in order to contend with the credit risk component included in the fair value of derivative instruments. In accordance with the above transitional directives, and pursuant to the instructions of the Supervisor of Banks, the Bank carries out the aforesaid adjustment calculation on a Group basis, while making use of a credit quality model according to groups of similar counterparties, e.g. based on internal ratings.

FAS 157 expands disclosure requirements with regard to the measurement of fair value. In the framework of improving disclosure regarding fair vale measurement, additional disclosures are to be included, such as the disclosure of significant amounts transferred from fair value measurement according to level 2, to measurement according to level 3 and *vice versa*, as well as including explanations for these transfers. In addition, disclosure is required regarding gross amounts of the changes in fair value measurement according to level 3 that derive from acquisition, sale, issue, and repayment. The new disclosures are required on a quarterly basis. The above mentioned disclosure requirements have been incorporated in these financial statements. However, there is no obligation to implement the above disclosure requirements in financial statements for periods reported before the initial implementation of the Standard. In view of this, these financial statements do not include comparative figures for the new disclosures.

FAS 159 allows a banking corporation to elect, on defined dates, to measure financial instruments and certain other items (the eligible items) at fair value, which under the Public Reporting Directives are not required to be measured at fair value. Unrealized profits and losses in respect of changes in the fair value of the items for which the fair value alternative is selected, shall be reported in the statement of profit and loss for each consecutive reporting period. In addition, prepaid costs and fees related to the items for which the fair value alternative is selected, shall be recognized in profit and loss on the date of creation, rather than deferred. The election to apply the fair value alternative, as noted above, shall be made instrument by instrument, and cannot be cancelled. In addition, FAS 159 establishes presentation and disclosure requirements aimed at facilitating comparisons between banking corporations that choose different bases for measurement of similar types of assets and liabilities.

Notwithstanding the above, it is clarified by the Banking Supervision Department that a banking corporation shall not elect the fair value alternative unless it has developed prior know-how, systems, procedures, and controls at a high level, which will enable it to measure the item to a high degree of reliability. Thus, a banking corporation shall not elect the fair value alternative with regard to any asset requiring classification as level 2 or level 3 of the fair value hierarchy, or with regard to any liability, unless it receives prior approval to do so from the Banking Supervision Department.

There was no material effect from initial implementation.

4. Instructions and Clarifications on the Strengthening of Internal Control over Financial Reporting relating to Employee Rights

On 27 March 2011, instructions were published by the Banking Supervision Department on the strengthening of internal control over financial reporting relating to employee rights. The instructions provide a number of clarifications concerning assessing the liability in respect of employee rights, and instructions in the matter of internal control over the financial reporting process on the subject of employee rights, with a requirement for the engagement of an authorized actuary, the identification and classification of liabilities in respect of employee rights, the maintaining of internal controls for purposes of reliance on the actuary's valuation and its validation, as well as certain disclosure requirements. On 23 May 2011, the Banking Supervision Department published a clarification according to which initial implementation was postponed until 1 April 2011.

The instructions provide, *inter alia*, that a banking corporation expecting to pay its employees, on their leaving, benefits in excess of contractual terms, shall take into account the percentage of employees expected to leave and the benefits expected, for the calculation of pension and jubilee grant obligations. As a result of the above instruction, the percentage of employees expected to leave early was changed in the actuarial models on which pension and jubilee grant obligations are based, and benefits in excess of contractual terms were taken into account.

The Bank made the initial implementation of the above instruction in the financial statements for the second quarter of 2011. The cumulative effect of implementing the instruction on the balance of retained earnings at 30 June 2011 amounted to NIS 549 million gross, and NIS 390 million net, of which the amount NIS 16 million is included in the profit and loss account for the first half of the year. The change in the above provisions was reported as a restatement of the balance of retained earnings as at 31 December 2008, and as of that date the effect on profit and loss was reported in each period, restating salary expenses, the provision for taxes, and the net profit.

Below are details of the amounts that changed as a result of implementing the above directive (NIS millions):

Item	For the three months ended 30 September 2010			For the nine months ended 30 September 2010		
	Balance before restatement	Change	Balance after restatement	Balance before restatement	Change	Balance after restatement
Salary expenses	1,059	(5)	1,054	3,434	29	3,463
Tax expenses	413	2	415	871	(8)	863
Net profit	603	3	606	1,859	(21)	1,838
Basic and diluted profit per share	0.41	-	0.41	1.25	-	1.25
				As at 30 September 2010		
Other assets				2,513	143	2,656
Other liabilities				12,770	494	13,264
Shareholders' equity				23,721	(351)	23,370
Capital adequacy ratio to risk assets				15.25%	(0.18%)	15.07%

Item	For the year ending 31 December 2010		
	Balance before restatement	Change	Balance after restatement
Salary expenses	4,615	61	4,676
Tax expenses	1,256	(17)	1,239
Net profit	2,378	(44)	2,334
Basic and diluted profit per share	1.61	(0.03)	1.58
	As at 31 December 2010		
Other assets	2,454	152	2,606
Other liabilities	13,320	526	13,846
Shareholders' equity	23,667	(374)	23,293
Capital adequacy ratio to risk assets	15.10%	(0.14%)	14.96%

C. New Accounting Standards and New Directives of the Supervisor of Banks in the Period before their Implementation

1. In December 2006, the Israel Accounting Standards Board published Accounting Standard No. 23 – "The Accounting Treatment of Transactions between an Entity and its Controlling Shareholder". The standard replaces the provisions of the Securities Regulations (Presentation of Transactions between a Company and its Controlling Shareholder in the Financial Statements), 1996, as adopted in the Public Reporting Directives of the Supervisor of Banks. The standard provides that assets and liabilities included in a transaction between the entity and its controlling shareholder shall be measured on the transaction date at fair value and that the difference between the fair value and the consideration recorded in the transaction shall be included in shareholders' equity. A debit difference effectively constitutes a dividend and accordingly reduces retained earnings. A credit difference effectively constitutes an investment by the shareholder and shall therefore be presented as a separate item under shareholders' equity called "capital reserve from transaction between an entity and its controlling shareholder".

The standard discusses three issues relating to transactions between an entity and its controlling shareholder, as follows: (1) the transfer of an asset to the entity by the controlling shareholder, or alternatively, the transfer of an asset from the entity to the controlling shareholder; (2) the assumption by the controlling shareholder of all or part of a liability of the entity to a third party, indemnification of the entity by the controlling shareholder in respect of an expense, and the waiving by the controlling shareholder of all or part of the entity's debt to it; and (3) loans that were granted to the controlling shareholder or loans that were received from the controlling shareholder. The standard also determines the disclosure that is to be made in the financial statements regarding transactions between the entity and its controlling shareholder during the period.

On 2 October 2011, a draft circular was promulgated on the subject of "Adoption of Certain International Financial Reporting Standards (IFRS)". In the context of the draft it was stipulated, *inter alia*, that as of 1 January 2012, for purposes of the accounting treatment of transactions between a banking corporation and its controlling interest, and a company controlled by the banking corporation, the accounting principles generally accepted by banks in the US are to be implemented. In those situations where the above principles do not include a reference to the manner of treatment, the principles laid out in Standard 23 are to be implemented, consistent with the principles of adoption of international financial reporting standards on matters not part of the core banking business.

In the Bank's opinion, no significant effect is expected from the initial implementation of the Standard.

2. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)". The standard prescribes that entities that are subject to the Securities Law, 1968, and that are required to report according to the regulations of that law, shall prepare their financial statements in accordance with IFRS for periods commencing 1 January 2008. The aforementioned does not yet apply to banking corporations, the financial statements of which are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

In June 2009, the Banking Supervision Department published a circular on the subject of "Reporting of Banking Corporations and Credit Card Companies in Israel in accordance with

International Financial Reporting Standards (IFRS)", which determines the expected manner of adoption of IFRS by banking corporations. Pursuant to the circular, the target date for reporting of banking corporations and credit card companies according to IFRS standards is:

Subjects that are not a core part of the banking business – beginning 1 January 2011. However, IFRS standards on the subjects set out below have not yet come into force and will be adopted pursuant to instructions by the Banking Supervision Department when published regarding the timing and manner of their initial implementation:

- IAS 7 Statement of Cash Flows
- IAS 12 Income Taxes
- IAS 19 Employee Benefits
- IAS 23 Borrowing Costs
- IAS 24 Related Party Disclosures

On 2 October 2011, a draft circular was promulgated on the subject of Adoption of Certain International Financial Reporting Standards (IFRS). In the context of the draft it was stipulated, *inter alia*, that these international financial reporting standards, with the exception of IAS 19, are to be implemented as of 1 January 2012. On the initial implementation of these international financial reporting standards, banks are required to act in accordance with the transitional directives laid out in the Standards, including the retroactive amendment of comparative figures if this is required.

The Bank is examining the expected effect of initial implementation of the Standards.

Subjects that are a core part of the banking business – beginning 1 January 2013, while the Banking Supervision Department intends to make a final decision in this regard during 2011. The final decision will be made while taking into account the timetable laid down in the United States, and progress made in the convergence process between the international and US standard boards.

In addition, the circular clarifies that following completion of the process of adaptation of the directives to IFRS, the Banking Supervision Department will continue to have the authority to lay down binding clarifications regarding the manner of implementation of the requirements of the international standards, and to determine additional directives where such is required in light of the requirements of regulatory authorities in developed countries worldwide, or on subjects not dealt with in the international standards. In addition, the Banking Supervision Department retains its authority to determine disclosure and reporting requirements.

3. In April 2011, the FASB published Accounting Standards Update ASU 2011-03 – "Reconsideration of Effective Control for Repurchase Agreements", which constitutes an update to the rules set out in FAS 166 (ASC 860).

According to the update, the method of assessing the existence of effective control by the transferor in repurchase agreements is required to be changed. Assessing the existence of effective control will focus on the contractual rights and contractual liabilities of the transferor, and so the following will not be taken into account: (1) the criterion requiring the transferor to have the ability to repurchase securities transferred, even in the event of default by the transferee, and (2) instructions relating to the collateral maintenance related to the above criterion. Other criteria for assessing the existence of effective control were not amended by the ASU. These criteria indicate that the transferor retains effective control of the assets transferred (and so the transfer of assets will be treated as a secured debt) if all of the following conditions are met:

- The assets to be repurchased or redeemed are the same or substantially the same as those transferred;

- The agreement is to repurchase or redeem them before maturity, at a fixed or determinable price; and

- The agreement is entered into contemporaneously with the transfer.

The update is effective for reporting periods beginning after 15 December 2011 (i.e. as of 1 January 2012) and applied prospectively for new transactions and modifications of existing transactions taking place as of the beginning of the first quarterly or annual period after the effective date. Early adoption is not permitted.

4. Draft directive regarding the format of the statement of profit and loss for a banking corporation and adoption of generally accepted accounting principles in US banks on the measurement of interest income.

On 21 September 2011, a draft directive was promulgated that is intended to adapt the Public Reporting Directives for purposes of:

- Determining the method of presenting the statement of profit and loss - the directive adapts the format of the statement of profit and loss to the accepted way of reporting worldwide and in the United States. The new format changes the way the components of the financing profit are presented in the body of the statement of profit and loss and accompanying notes; eliminates the distinction between commissions on financing transactions and operating commissions; changes the classification of linkage differentials on principal as part of "interest", and also changes the classification and names of other sections of the statement of profit and loss. In addition, the directive eliminates the item for "Income from extraordinary activities" and adopts the approach used in the U.S. under which special items that are defined as items which are "unusual" and "infrequent" and determines that the classification of any event as an extraordinary item would be allowed only with prior approval of the Banking Supervision Department. In addition, the directive determines changes to the format of additional notes to the financial statements.

  Implementation of the directives regarding the format of the statement of profit and loss from the report will be carried out as of the financial statement for the first quarter of 2012, by way of retroactive application. Initial implementation is not expected to have any effect apart from changes in presentation.

- Adoption of the rules prescribed in accounting standards generally accepted in the United States on "Nonrefundable Fees and Other Costs" - the directive establishes rules for commissions from originating loans and direct loan origination costs. Eligible fees and costs according to criteria specified in the directive will not be recognized immediately in the statement of profit and loss, but will be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of fees and costs associated with commitments to allocate credit, including credit card transactions. In addition, rules were set out in the directive regarding the treatment of changes in the terms of the debt that do not constitute a restructuring of a problem debt, the treatment of early repayments of debts, and the treatment of other transactions granting credit, such as syndicated transactions.

  The rules prescribed in the directive constitute a significant change compared with the rules existing currently in the Public Reporting Directives. Preparations for implementing the rules established in the directive are complex and the Banking Supervision Department intends to accompany the process of preparation by the banking corporations, especially with regard to identifying the eligible costs. According to the draft circular, it was decided that the rules be implemented as of January 1, 2013. Provisions relating to changing the definition of “interest” in respect of impaired debts will be implemented for debts classified as impaired as of 1 January 2012.

The Bank is studying the draft directive and examining the implications of its initial implementation.

Note 2 - Securities
Reported Amounts

	30 September 2011 (Unaudited)				
	Amount in Balance Sheet	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
1. Debentures held to maturity:					
Debentures and bonds -					
Government of Israel	-	-	-	-	-
Foreign Governments	-	-	-	-	-
Other companies	-	-	-	-	-
Total debentures held to maturity	-	-	-	-	-

	30 September 2011 (Unaudited)				
	Amount in Balance Sheet	Amortized cost (in shares - cost)	Accumulated other comprehensive income		Fair Value (a)
			Profits	Losses	
	(NIS millions)				
2. Securities available for sale:					
Debentures and bonds -					
Government of Israel	12,408	12,267	143	(2)	12,408
Foreign Governments	619	620	3	(4)	619
Other companies	13,163	13,764	82	(683)	13,163
	26,190	26,651	228	(689)	26,190
Shares and mutual funds:					
Other companies (b)	2,391	2,130	298	(37)	2,391
Total securities available for sale	28,581	28,781	526 (c)	(726) (c)	28,581

	30 September 2011 (Unaudited)				
	Amount in Balance Sheet	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
3. Securities held for trading:					
Debentures and bonds -					
Government of Israel	8,022	7,982	53	(13)	8,022
Foreign Governments	68	68	-	-	68
Other companies	1,332	1,379	12	(59)	1,332
	9,422	9,429	65	(72)	9,422
Shares and mutual funds:					
Other companies (b)	353	355	3	(5)	353
Total securities available for sale	9,775	9,784	68(d)	(77) (d)	9,775
Total securities	38,356	38,565	594	(803)	38,356

See notes on page 220.

Note 2 - Securities (Cont'd)
Reported Amounts

	30 September 2010 (Unaudited)				
	Amount in Balance Sheet	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
1. Debentures held to maturity:					
Debentures and bonds -					
Government of Israel	-	-	-	-	-
Foreign Governments	-	-	-	-	-
Other companies	-	-	-	-	-
Total debentures held to maturity	-	-	-	-	-

	30 September 2010 (Unaudited)				
	Amount in Balance Sheet	Amortized cost (in shares - cost)	Accumulated other comprehensive income		Fair Value (a)
			Profits	Losses	
	(NIS millions)				
2. Securities available for sale:					
Debentures and bonds-					
Government of Israel	23,815	23,513	318	(16)	23,815
Foreign Governments	1,059	1,056	5	(2)	1,059
Other companies	17,022	17,026	354	(358)	17,022
	41,896	41,595	677	(376)	41,896
Shares and mutual funds:					
Other companies (b)	2,700	2,106	607	(13)	2,700
Total securities available for sale	44,596	43,701	1,284 (c)	(389) (c)	44,596

	30 September 2010 (Unaudited)				
	Amount in Balance Sheet	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
3. Securities held for trading:					
Debentures and bonds -					
Government of Israel	6,984	6,891	102	(9)	6,984
Foreign Governments	792	793	1	(2)	792
Other companies	1,785	1,777	31	(23)	1,785
	9,561	9,461	134	(34)	9,561
Shares and mutual funds:					
Other companies (b)	216	576	-	(360)	216
Total securities held for trading	9,777	10,037	134 (d)	(394) (d)	9,777
Total securities	54,373	53,738	1,418	(783)	54,373

See notes on page 220.

Note 2 - Securities (Cont'd)

Reported Amounts

	31 December 2010 (Audited)				
	Amount in Balance Sheet	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
1. Debentures held to maturity:					
Debentures and bonds-					
Government of Israel	-	-	-	-	-
Foreign Governments	-	-	-	-	-
Other companies	-	-	-	-	-
Total debentures held to maturity	-	-	-	-	-

	31 December 2010 (Audited)				
	Amount in balance Sheet	Amortized cost (in shares - cost)	Accumulated other comprehensive income		Fair value (a)
			Profits	Losses	
	(NIS millions)				
2. Securities available for sale:					
Debentures and bonds -					
Government of Israel	25,382	25,267	154	(39)	25,382
Foreign Governments	2,101	2,098	6	(3)	2,101
Other companies	16,774	16,906	258	(390)	16,774
	44,257	44,271	418	(432)	44,257
Shares and mutual funds					
Other companies (b)	2,859	2,211	653	(5)	2,859
Total securities available for sale	47,116	46,482	1,071 (c)	(437) (c)	47,116

	31 December 2010 (Audited)				
	Amount in Balance Sheet	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
3. Securities held for trading:					
Debentures and bonds-					
Government of Israel	5,788	5,733	72	(17)	5,788
Foreign Governments	750	757	-	(7)	750
Other companies	1,860	1,877	18	(35)	1,860
	8,398	8,367	90	(59)	8,398
Shares and mutual funds:					
Other companies (b)	277	636	-	(359)	277
Total securities held for trading	8,675	9,003	90 (d)	(418) (d)	8,675
Total securities	55,791	55,485	1,161	(855)	55,791

See notes on page 220.

Note 2 - Securities (Cont'd)

Notes:

(a) Fair value amounts are generally based on Stock Exchange prices, which do not necessarily reflect the price which would be received for the sale of a large volume of securities.

(b) Including NIS 1,409 million with respect to shares which have no readily available fair value, which are shown at cost (31 December 2010 - NIS 1,289 million and 30 September 2010 - NIS 1,261 million).

(c) Regarding securities available for sale, total other profit – unrealized profits (losses) are included in shareholders' equity under "Adjustments in respect of presentation of securities available for sale according to fair value", except securities intended as hedges in fair value hedging.

(d) Charged to the profit and loss statement, but not yet realized.

Securities lent in the amount of NIS 429 million (31 December 2010 – NIS 1,211 million and at 30 September 2010 – NIS 599 million) are shown under credit to the public.

As a result of the events in the global and Israeli capital markets, there was an impairment in investments in securities (bonds and stocks) in Israel and abroad. The decrease in the value of the available-for-sale portfolio from the end of September 2011 to 21 November 2011 amounted to NIS 26 million.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	30 September 2011 (Unaudited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) *		Fair value
			profits	losses	
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	116	111	5	-	116
Securities issued by FNMA and FHLMC	127	120	7	-	127
Total	243	231	12	-	243
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	974	965	11	(2)	974
Other Mortgage-backed securities	453	464	-	(11)	453
Total	1,427	1,429	11	(13)	1,427
Asset-backed securities (ABS):					
Debtors in respect of credit cards	39	39	-	-	39
Lines of credit for any purpose secured by dwelling	2	3	-	(1)	2
Other credit to private persons	5	5	-	-	5
CLO	679	734	1	(56)	679
CDO	15	15	-	-	15
SCDO	1	1	-	-	1
Others	3	3	-	-	3
Total	744	800	1	(57)	744
Total Asset-backed debentures available for sale	2,414	2,460	24	(70)	2,414

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

Note 2 - Securities (Cont'd)

Of which: Asset-backed securities

Reported amounts

	30 September 2011 (Unaudited)				
	Amount In balance sheet	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities issued by FNMA and FHLMC	1	1	-	-	1
Other securities	6	7	-	(1)	6
Total	7	8	-	(1)	7
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	83	81	2.0	-	83
Other Mortgage-backed securities	8	11	-	(3)	8
Total	91	92	2.0	(3)	91
Asset-backed securities (ABS):					
Credit card receivables	-	-	-	-	-
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	-	-	-	-	-
Credit not to private persons	5	5	-	-	5
CDO	1	7	-	(6)	1
Others	2	3	-	(1)	2
Total	11	18	-	(7)	11
Total Asset-backed debentures held for trading	109	118	2	(11)	109

* These profits (losses) are charged to the profit and loss account.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	30 September 2010 (Unaudited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) * profits	losses	Fair value
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	1,906	1,847	59	-	1,906
Securities issued by FNMA and FHLMC	276	264	12	-	276
Total	2,182	2,111	71	-	2,182
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,266	1,250	17	(1)	1,266
Other Mortgage-backed securities	312	341	-	(29)	312
Total	1,578	1,591	17	(30)	1,578
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	2	4	-	(2)	2
Credit for purchase of vehicle	6	6	-	-	6
Other credit to private persons	6	6	-	-	6
CLO	825	722	137	(34)	825
CDO	27	27	-	-	27
SCDO	57	47	10	-	57
Others	4	4	-	-	4
Total	927	816	147	(36)	927
Total Asset-backed debentures available for sale	4,687	4,518	235	(66)	4,687

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	30 September 2010 (Unaudited)				
	Amount In balance sheet	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities issued by FNMA and FHLMC	1	1	-	-	1
Total	10	10	-	-	10
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	30	29	1	-	30
Other Mortgage-backed securities	12	15	-	(3)	12
Total	42	44	1	(3)	42
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	-	-	-	-	-
Credit not to private persons	5	5	-	-	5
CDO	2	6	-	(4)	2
Others	2	3	-	(1)	2
Total	12	17	-	(5)	12
Total Asset-backed debentures held for trading	64	71	1	(8)	64

* These profits (losses) are charged to profit and loss.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	31 December 2010 (Audited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) * profits	losses	Fair value
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	1,734	1,707	38	(11)	1,734
Securities issued by FNMA and FHLMC	247	237	10	-	247
Total	1,981	1,944	48	(11)	1,981
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,424	1,421	14	(11)	1,424
Other Mortgage-backed securities	37	49	-	(12)	37
Total	1,461	1,470	14	(23)	1,461
Asset-backed securities (ABS):					
Debtors in respect of credit cards	38	38	-	-	38
Lines of credit for any purpose secured by dwelling	2	3	-	(1)	2
Credit for purchase of vehicle	4	4	-	-	4
Other credit to private persons	6	6	-	-	6
CLO debentures	760	686	102	(28)	760
CDO debentures	28	28	-	-	28
SCDO debentures	57	45	12	-	57
others	4	5	-	(1)	4
Total	899	815	114	(30)	899
Total Asset-backed debentures available for sale	4,341	4,229	176	(64)	4,341

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	31 December 2010 (Audited)				
	Amount In balance sheet	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities issued by FNMA and FHLMC	10	10	-	-	10
Other securities	7	7	-	-	7
Total	17	17	-	-	17
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	27	26	1	-	27
Other Mortgage-backed securities	11	13	-	(2)	11
Total	38	39	1	(2)	38
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicles	148	149	-	(1)	148
Credit not to private persons	5	5	-	-	5
CDO debentures	-	-	-	-	-
Others	2	3	-	(1)	2
Total	158	160	-	(2)	158
Total Asset-backed debentures held for trading	213	216	1	(4)	213

* These profits (losses) are charged to profit and loss.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	30 September 2011 (Unaudited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Mortgage-Backed Securities (MBS)	**-**	**-**	**-**	**-**	**-**	**-**
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	**660**	**(4)**	**172**	**(9)**	**832**	**(13)**
Asset-backed securities (ABS)	**348**	**(33)**	**363**	**(24)**	**711**	**(57)**
Total	**1,008**	**(37)**	**535**	**(33)**	**1,543**	**(70)**

	30 September 2010 (Unaudited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Mortgage-Backed Securities (MBS)	132	-	457	(30)	589	(30)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)						
Asset-backed securities (ABS)	2	-	436	(36)	438	(36)
Total	134	-	893	(66)	1,027	(66)

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	31 December 2010 (Audited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Mortgage-Backed Securities (MBS)	227	(11)	-	-	227	(11)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	345	(11)	200	(12)	545	(23)
Asset-backed securities (ABS)	41	-	419	(30)	460	(30)
Total	613	(22)	619	(42)	1,232	(64)

- Losses less than NIS 1 million.

Note 3 – Credit to the Public and Allowance for Credit Losses
Reported amounts

As of 1 January 2011, the Bank implements the new Directive of the Supervisor of Banks on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk and Provision for Credit Losses." In these condensed consolidated interim financial statements, disclosure has been made in the new format in accordance with the new reporting requirements. In view of the fact that the new Directive was implemented prospectively, without restating comparative amounts, figures for the current period are also shown below for comparative purposes with the relevant balances as at 31 December, 2010 (pro-forma amounts), as if the Directive had been implemented initially for that year. See section D below.

A. Balance of credit to the public

	30 September 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Credit to the public examined on an individual basis*	**123,922**	**2,714**	**121,208**
Credit to the public examined on a group basis**	**117,249**	**1,142**	**116,107**
Total credit to the public	**241,171**	**3,856**	**237,315**
Of which: Customers' liabilities for acceptances	**1,134**	**4**	**1,130**

	31 December 2010 (Pro-forma) (Audited) (a)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Credit to the public examined on an individual basis*	107,180	4,126	103,054
Credit to the public examined on a group basis**	121,073	1,252	119,821
Total credit to the public	228,253	5,378	222,875
Of which: Customers' liabilities for acceptances	462	3	459

(a) Restated – see note on page 235.

* Including credit examined on an individual basis and found to be unimpaired. The allowance for credit losses in respect of this credit was calculated on a group basis.

** Credit for which a credit loss allowance was assessed on a group basis by extent of arrears according to the Appendix to Proper Conduct of Banking Business Directive No. 314, and other credit not examined individually for which the allowance for credit losses relating to it was calculated on a group basis.

Note 3 – Credit to the Public and Allowance for Credit Losses (cont'd)
Reported amounts

B. Credit to the public examined on an individual basis

	30 September 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
1. Credit to the public examined on an individual basis includes:			
Impaired credit to the public*	6,334	1,647	4,687
Unimpaired credit to the public, in arrears of 90 days or more**	2	-	2
Unimpaired credit to the public, in arrears of 30 to 89 days **	423	4	419
Other unimpaired credit to the public **	117,163	1,063	116,100
Total unimpaired credit to the public	117,588	1,067	116,521
Total credit to the public examined on an individual basis	123,922	2,714	121,208

	31 December 2010 (Pro-forma) (Audited) (a)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Credit to the public examined on an individual basis includes:			
Impaired credit to the public*	8,937	3,233	5,704
Unimpaired credit to the public, in arrears of 90 days or more**	-	-	-
Unimpaired credit to the public, in arrears of 30 to 89 days **	1,225	17	1,208
Other unimpaired credit to the public **	97,018	876	96,142
Total unimpaired credit to the public	98,243	893	97,350
Total credit to the public examined on an individual basis	107,180	4,126	103,054

a. Restated

* Impaired debt not accruing interest income, excluding certain credit under restructuring.

** Credit examined on an individual basis and found to be unimpaired. A credit loss allowance in respect of this credit was calculated on a group basis.

Note 3 – Credit to the Public and Allowance for Credit Losses (cont'd)
Reported amounts

B. Credit to the public examined on an individual basis (cont'd)
Additional information on impaired credit to the public examined on an individual basis

	30 September 2011	31 December 2010
	NIS millions	
2. Impaired credit to the public in respect of which there is a allowance for credit losses on an individual basis	**4,353**	5,894
Impaired credit to the public in respect of which there is no allowance for credit losses on an individual basis	**1,981**	3,043
Total impaired credit	**6,334**	8,937

3. Impaired credit to the public measured according to present value of cash flows	**4,912**	8,189
Impaired credit to the public measured according to collateral value	**1,422**	748
Total impaired credit to the public	**6,334**	8,937

	30 September 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
4. Problematic credit under restructuring in which changes were made to the terms of credit:			
Not accruing interest income	**633**	**67**	**566**
Accruing interest income	**143**	**1**	**142**
Total (included in impaired credit to the public)	**776**	**68**	**708**

	31 December 2010 (Pro-forma) (Audited) (a)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Problematic credit under restructuring in which changes were made to the terms of credit:			
Not accruing interest income	290	7	283
Accruing interest income	43	1	42
Total (included in impaired credit to the public)	333	8	325

	30 September 2011 (Unaudited)
	NIS millions
5.	
Average balance of debt in the books for the reporting period of impaired credit to the public	**6,974**
Amount of interest income recorded for the reporting period in respect of this credit during the period it was classified as impaired *	**83**
Amount of interest income that would have been recorded for the reporting period if this credit had accrued interest in accordance with its original terms	**465**
* Of which: Interest income that would have been recorded under the cash-basis accounting method	**82**

Note 3 – Credit to the Public and Allowance for Credit Losses (cont'd)
Reported amounts

C. Credit to the public examined on a group basis including:
1. Housing loans for which a minimum allowance for credit losses was made by extent of arrears:

30 September 2011 (Unaudited)								
	Extent of arrears							
	Arrears of 30 to 90 days	Arrears of more than 90 days						
	From 1 to 3 months	From 3 to 6 months	From 6 to 15 months	From 15 to 33 months	Above 33 months	Total above 3 months	Balances in respect of refinanced past-due loans	Total
	NIS millions							
Amount of arrears	**7**	**7**	**13**	**11**	**194**	**225**	**15**	**247**
Of which: Balance of provision for interest (1)	**-**	**-**	**-**	**1**	**90**	**91**	**1**	**92**
Balance of debt in the books	**727**	**189**	**137**	**46**	**214**	**586**	**340**	**1,653**
Balance of allowance for credit losses (2)	**-**	**-**	**18**	**22**	**200**	**240**	**147**	**387**
Net balance of debt	**727**	**189**	**119**	**24**	**14**	**346**	**193**	**1,266**

31 December 2010 (Pro-forma) (Audited) (a)								
	Extent of arrears							
	Arrears of 30 to 90 days	Arrears of more than 90 days						
	From 1 to 3 months	From 3 to 6 months	From 6 to 15 months	From 15 to 33 months	Above 33 months	Total above 3 months	Balances in respect of refinanced past-due loans	Total
	NIS millions							
Amount of arrears	9	7	16	13	214	250	16	275
Of which: Balance of provision for interest (1)	-	-	1	1	98	100	1	101
Balance of debt in the books	742	212	147	63	245	667	379	1,788
Balance of provision for credit losses (2)	-	-	19	29	225	273	177	450
Net balance of debt	742	212	128	34	20	394	202	1,338

(1) In respect of interest on amounts in arrears.
(2) Excluding the balance of the allowance for interest

(a) Restated.

Note 3 – Credit to the Public and Allowance for Credit Losses (cont'd)
Reported amounts

C. Credit to the public examined on a group basis including:
2. Other credit not examined individually for which an allowance for credit losses was calculated on a group basis:

	30 September 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Impaired credit to the public	**5**	**1**	**4**
Unimpaired credit to the public, in arrears of 90 days or more	**571**	**34**	**537**
Unimpaired credit to the public, in arrears of 30 to 89 days	**724**	**12**	**712**
Other unimpaired credit to the public	**114,296**	**708**	**113,588**
Total credit to the public not examined on an individual basis	**115,596**	**755**	**114,841**

	31 December 2010 (Pro-forma) (Audited) (a)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Impaired credit to the public	6	2	4
Unimpaired credit to the public, in arrears of 90 days or more	63	27	36
Unimpaired credit to the public, in arrears of 30 to 89 days	894	13	881
Other unimpaired credit to the public	118,322	760	117,562
Total credit to the public not examined on an individual basis	119,285	802	118,483

(a) Restated.

Note 3 – Credit to the Public and Allowance for Credit Losses (cont'd)
Reported amounts

D. Allowance for credit losses in respect of debts and in respect of off-balance sheet credit instruments

	On an individual basis	On a group basis		Total
		By extent of arrears	Other	
	NIS millions			
Balance of allowance for credit losses as at 31.12.2010	9,321	450	770	10,541
Net accounting write-offs recognized at 1.1.2011 (a)	(5,835)	-	(5)	(5,840)
Other changes in the allowance for credit losses as at 1.1.2011 (charged to shareholders' equity) (a) (b)	(107)	-	1,181	1,074
Balance of allowance for credit losses as at 1.1.2011	3,379	450	1,946	5,775
Expenses (income) in respect of credit losses	204	(22)	167	349
Accounting write-offs	(1,921)	(41)	(4)	(1,966)
Collection of debts written off in the accounts in previous years	132	-	-	132
Net accounting write-offs	(1,789)	(41)	(4)	(1,834)
Balance of allowance for credit losses as at 30 September 2011	1,794	387	2,109	4,290
Composition of balance of the provision as at 30 September 2011				
In respect of credit to the public	1,647	387	1,822	3,856
In respect of debts not being credit to the public	3	-	2	5
In respect of off balance-sheet credit instruments	144	-	285	429
Balance of allowance for credit losses as at 30 September 2011	1,794	387	2,109	4,290
Composition of balance of the provision as at 31 December 2010				
In respect of credit to the public	3,233	450	1,695	5,378
In respect of debts not being credit to the public	1	-	-	1
In respect of off balance-sheet credit instruments	145	-	251	396
Balance of allowance for credit losses as at 31 December 2011	3,379	450	1,946	5,775

Note 3 – Credit to the Public and Allowance for Credit Losses (cont'd)
Reported amounts

D. Allowance for credit losses in respect of debts and in respect of off-balance sheet credit instruments (cont'd)

		On a group basis		
	On an individual basis	By extent of arrears	Other	Total
	NIS millions			
Balance of allowance for credit losses as at 30 June 2011	**2,328**	**399**	**1,973**	**4,700**
Expenses in respect of credit losses	241	(1)	138	378
Accounting write-offs	(817)	(11)	(2)	(830)
Collection of debts written off in the accounts in previous years	42	-	-	42
Net accounting write-offs	(775)	(11)	(2)	(788)
Balance of allowance for credit losses as at 30 September 2011	**1,794**	**387**	**2,109**	**4,290**

(a) Net accounting write-offs and other changes in the allowance for credit losses as a result of initial implementation of the new Directives on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk and Provision for Credit Losses."

(b) The figures are restated compared with the "pro-forma" amounts published in the Annual Report as at 31 December, 2010 in the amount of NIS 239 million (before the effect of tax), mainly as a result of directives of the Banking Supervision Department on the subject of the group allowance in respect of housing loans and special mention in respect of individual debts as well as changing allowances in respect of interest on principal.

Note 3 – Credit to the Public and Allowance for Credit Losses (cont'd)
Reported amounts

E. Additional details of housing loans and the method of calculating the allowance for credit losses

30 September 2011 (Unaudited)

	Housing loans: Recorded balance of debt (3)	Impaired housing loans or in arrears of more than 90 days (*): Amount in arrears (*)	Impaired housing loans or in arrears of more than 90 days (*): Recorded balance of debt	Balance of allowance for credit losses: By extent of arrears (2)	Balance of allowance for credit losses: Other: On group basis	Balance of allowance for credit losses: Other: On individual basis	Balance of allowance for credit losses: Total
	(NIS millions)						
Housing loans that require calculating the allowance for credit losses according to extent of arrears (1)	**56,630**	**245**	**951**	**538**	**4**	**9**	**551**
Other housing loans	**1,362**	**14**	**50**	**-**	**2**	**13**	**15**
Total	**57,992**	**259**	**1,001**	**538**	**6**	**22**	**566**

30 September 2010 (Unaudited)

	Credit	Problematic debts: Balance sheet debt balance	Problematic debts: Including amount in arrears	Specific provision: According to depth of arrears	Specific provision: Other	Specific provision: Total
	(NIS millions)					
Housing loans that require calculating the allowance for credit losses according to extent of arrears	29,528	441	145	349	-	349
"Large" loans	12,721	111	127	119	-	119
Other loans	8,202	183	21	31	9	40
Balance of the allowance at the end of the period	50,451	735	293	499	9	508

31 December 2010 (Audited)

	Housing loans: Recorded balance of debt (3) (4)	Impaired housing loans or in arrears of more than 90 days (*): Amount in arrears (*)	Impaired housing loans or in arrears of more than 90 days (*): Recorded balance of debt	Balance of allowance for credit losses: By extent of arrears (2)	Balance of allowance for credit losses: Other: On group basis	Balance of allowance for credit losses: Other: On individual basis	Balance of allowance for credit losses: Total
	(NIS millions)						
Housing loans that require calculating the allowance for credit losses according to extent of arrears (1) (**)	50,704	266	1,046	592	-	-	592
Other housing loans	-	-	-	-	-	-	-
Total	50,704	266	1,046	592	-	-	592

(1) Of which: loans for any purpose against a pledge of a residential dwelling in the amount of NIS 7,550 million (31 December 2010 – NIS 6,817 million).
(2) Including the balance of the provision in excess of the amount according to extent of arrears in the amount of NIS 259 million (31 December 2010 – NIS 260 million).
(3) Of which: housing loans at variable rates of interest in the amount of NIS 43,403 million (31 December 2010 – NIS 38,703 million).
(4) The balance does not include credit in respect of purchasing groups shown in the construction and real estate sector in the amount of NIS 836 million (31 December 2010 – NIS 793 million).

(*) Including interest on the amount in arrears.
(**) Reclassified.

Note 4 - Capital Adequacy in accordance with directives of the Supervisor of Banks

Calculated pursuant to the Proper Conduct of Banking Business Directives Nos. 201-211 on the subject of "Measurement and Adequacy of Capital"

Reported amounts

	30 September 2011	30 September 2010	31 December 2010
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after deduction	**22,840**	22,309	22,897
Tier 2 capital, after deduction	**16,961**	17,790	17,716
Tier 3 capital	**-**	-	-
Total capital	**39,801**	40,099	40,613
Weighted balance of risk assets			
Credit risk	**259,625**	237,555	239,900
Market risk	**9,184**	7,842	10,653
Operational risk	**20,749**	20,626	20,904
Total weighted balance of risk assets	**289,558**	266,023	271,457
Ratio of capital to risk assets (%)			
Ratio of Tier 1 capital to risk assets	**7.89%**	8.39% (b)	8.43% (b)
Ratio of total capital to risk assets	**13.75%**	15.07% (b)	14.96% (b)
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
B. Principal subsidiary companies			
Leumi Mortgage Bank			
Ratio of Tier 1 capital to risk assets	**8.58%**	9.81% (b)	9.27% (b)
Ratio of total capital to risk assets	**12.89%**	14.73% (b)	13.92% (b)
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Arab Israel Bank			
Ratio of Tier 1 capital to risk assets	**10.61%**	11.57% (b)	9.90% (b)
Ratio of total capital to risk assets	**15.01%**	16.52% (b)	14.61% (b)
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk assets	**14.40%**	14.10%	14.40%
Ratio of total capital to risk assets	**14.40%**	14.10%	14.40%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Bank Leumi USA (a)			
Ratio of Tier 1 capital to risk assets	**10.29%**	10.80%	10.72%
Ratio of total capital to risk assets	**13.04%**	13.77%	13.52%
Ratio of total minimum capital required by the local authorities	**10.00%**	10.00%	10.00%

(a) The US branch is not obliged to calculate the capital adequacy ratio according to Basel II, and so the ratios reported are according to Basel I.

(b) Restated due to retroactive implementation of the instructions of the Supervisor of Banks regarding the strengthening of internal control on financial reporting of employee rights - see Note 1.B.4.

Note 5 - Assets and Liabilities Classified by Linkage Basis
as at 30 September 2011 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	41,148	327	8,782	1,835	2,506	64	54,662
Securities	13,006	6,987	8,166	5,947	1,506	2,744	38,356
Securities borrowed or purchased under agreement to resell	1,252	-	-	-	-	-	1,252
Credit to the public, net	130,071	52,169	38,769	6,731	9,498	77	237,315
Credit to governments	-	264	112	27	-	-	403
Investments in affiliated companies	5	-	-	-	-	2,345	2,350
Buildings and equipment	-	-	-	-	-	3,615	3,615
Assets in respect of derivative instruments	3,780	129	6,705	268	512	102	11,496
Other assets	2,217	7	940	29	34	499	3,726
Total assets	191,479	59,883	63,474	14,837	14,056	9,446	353,175
Liabilities							
Deposits of the public	138,909	26,085	73,348	19,412	9,336	159	267,249
Deposits from banks	2,492	221	2,954	246	414	-	6,327
Deposits from governments	33	205	193	12	-	-	443
Securities loaned or sold under	569	-	209	-	-	-	778
agreement to repurchase	4,956	22,727	890	-	-	-	28,573
Debentures, bonds and subordinated notes	3,562	1,037	6,880	571	497	89	12,636
Other liabilities	7,572	5,041	616	37	113	676	14,055
Total liabilities	158,093	55,316	85,090	20,278	10,360	924	330,061
Difference	33,386	4,567	(21,616)	(5,441)	3,696	8,522	23,114
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	(10,755)	(6,883)	17,906	4,777	(5,045)	-	-
Options in the money, net (in terms of underlying asset)	(896)	-	133	448	315	-	-
Options out of the money, net (in terms of underlying asset)	(504)	-	535	(46)	15	-	-
Total	21,231	(2,316)	(3,042)	(262)	(1,019)	8,522	23,114
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,717)	-	759	608	350	-	-
Options out of the money, net (discounted par value)	(401)	-	1,460	(864)	(195)	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 30 September 2010 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	29,690	386	6,658	2,208	1,411	7	40,360
Securities	21,893	8,132	12,300	7,732	1,400	2,916	54,373
Securities borrowed or purchased under agreement to resell	914	-	-	-	-	-	914
Credit to the public, net (b)	115,456	49,641	35,801	6,175	10,139	6	217,218
Credit to governments	-	259	126	-	-	-	385
Investments in affiliated companies	7	-	-	-	-	1,733	1,740
Buildings and equipment	-	-	-	-	-	3,600	3,600
Assets in respect of derivative instruments	3,926	52	2,251	597	1,583	1,035	9,444
Other assets (d)	1,370	45	801	36	44	472	2,768
Total assets	173,256	58,515	57,937	16,748	14,577	9,769	330,802
Liabilities							
Deposits of the public	119,780	26,032	70,516	20,412	9,035	45	245,820
Deposits from banks	5,385	261	773	186	183	-	6,788
Deposits from governments	42	358	207	7	-	-	614
Securities loaned or sold under agreement to repurchase	654	-	55	-	-	-	709
Debentures, bonds and subordinated notes	4,794	22,857	1,093	-	-	-	28,744
Liabilities in respect of derivative instruments	3,962	1,241	2,472	913	1,597	998	11,183
Other liabilities (d)	8,891	3,304	419	26	112	512	13,264
Total liabilities	143,508	54,053	75,535	21,544	10,927	1,555	307,122
Difference	29,748	4,462	(17,598)	(4,796)	3,650	8,214	23,680
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	(8,138)	(6,268)	15,054	4,793	(5,441)	-	-
Options in the money, net (in terms of underlying asset)	(625)	(8)	124	(285)	794	-	-
Options out of the money, net (in terms of underlying asset)	(635)	-	74	140	405	16	-
Total	20,350	(1,814)	(2,346)	(148)	(592)	8,230	23,680
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,279)	(16)	346	(302)	1,251	-	-
Options out of the money, net (discounted par value)	664	(3)	(1,463)	(342)	1,108	36	-

(a) Including linked to foreign currency.
(b) The general and supplementary provisions for doubtful debts have been deducted proportionately from the different linkage bases.
(c) Including derivative instruments whose basis refers to a non-monetary item.
(d) Restated. See Note 1.B.4 above.

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 31 December 2010 (Audited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	19,244	373	5,694	2,854	1,882	5	30,052
Securities	23,484	7,336	12,531	8,130	1,174	3,136	55,791
Securities borrowed or purchased under agreement to resell	1,190	-	-	-	-	-	1,190
Credit to the public, net (b)	121,095	51,632	35,809	5,629	9,801	15	223,981
Credit to governments	-	262	117	-	-	-	379
Investments in affiliated companies	6	-	-	-	-	1,918	1,924
Buildings and equipment	-	-	-	-	-	3,638	3,638
Assets in respect of derivative instruments	4,488	12	2,236	267	492	1,221	8,716
Other assets (d)	1,456	40	760	30	37	328	2,651
Total assets	170,963	59,655	57,147	16,910	13,386	10,261	328,322
Liabilities							
Deposits of the public	127,333	25,999	68,334	18,790	9,080	48	249,584
Deposits from banks	980	302	833	155	421	-	2,691
Deposits from governments	55	328	266	11	-	-	660
Securities loaned or sold under agreement to repurchase	762	-	244	-	-	-	1,006
Debentures, bonds and subordinated notes	4,832	21,159	948	-	-	-	26,939
Liabilities in respect of derivative instruments	4,319	1,127	2,281	440	626	1,192	9,985
Other liabilities (d)	8,717	4,014	406	23	141	545	13,846
Total liabilities	146,998	52,929	73,312	19,419	10,268	1,785	304,711
Difference	23,965	6,726	(16,165)	(2,509)	3,118	8,476	23,611
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	(4,092)	(5,866)	13,252	2,176	(5,470)	-	-
Options in the money, net (in terms of underlying asset)	(1,605)	(8)	13	477	1,123	-	-
Options out of the money, net (in terms of underlying asset)	(1,083)	-	681	47	355	-	-
Total	17,185	852	(2,219)	191	(874)	8,476	23,611
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(2,540)	(16)	9	737	1,810	-	-
Options out of the money, net (discounted par value)	(3,839)	-	3,294	382	163	-	-

(a) Including linked to foreign currency.
(b) The general and supplementary provisions for doubtful debts have been deducted proportionately from the different linkage bases.
(c) Including derivative instruments whose basis refers to a non-monetary item.
(d) Restated. See Note 1 above.

Note 6 - Contingent Liabilities and Special Commitments Reported Amounts

	30 September 2011		30 September 2010	31 December 2010
	Balances of contracts	Balance of allowance for credit losses	Balance after allowance for credit losses	Balance after allowance for credit losses
	(Unaudited)		(Unaudited)	(Audited)
	(NIS millions)			
A. Off-balance sheet financial instruments				
Balances of contracts or their stated amounts as at the end of the period				
Transactions in which the balance reflects a credit risk				
Documentary credits	**2,389**	**7**	2,585	2,101
Credit guarantees	**6,993**	**58**	6,197	6,192
Guarantees to apartment purchasers (a)	**11,920**	**21**	10,800	11,348
Other guarantees and liabilities	**15,744**	**223**	14,515	14,327
Commitments regarding uncompleted credit card transactions unutilized credit card facilities	**20,579**	**23**	19,520	18,999
Other unutilized revolving credit facilities to the public and credit facilities on demand	**13,730**	**29**	14,565	13,586
Irrevocable commitments to provide credit which has been approved and not yet granted (b)	**24,759**	**55**	20,842	20,340
Commitments to issue guarantees	**11,086**	**13**	8,636	9,428
Unutilized facilities for activity in derivative instruments	**4,341**	**-**	4,371	4,110
Approval in principle to maintain the rate of interest in Leumi Mortgage Bank	**2,098**	**-**	2,250	3,969

(a) Restated

(b) Of which: credit exposures in respect of liabilities to supply liquidity to securitization structures under the auspices of other parties not utilized in the amount of NIS 223 million (30 September 2010 - NIS 367 million, 31 December 2010 - NIS 213 million). The above obligation represents a relatively small part of the obligations of those securitizing entities.

	30 September 2011	30 September 2010	31 December 2010
B. Other contingent liabilities and special commitments:			
(1) Long-term rental contracts -			
Rental of buildings, equipment and vehicles and maintenance fees regarding commitments payable in the following years:			
First year	**184**	164	194
Second year	**174**	153	156
Third year	**145**	126	123
Fourth year	**131**	99	98
Fifth year	**100**	70	67
After five years	**513**	185	199
Total	**1,247**	797	837
(2) Commitments to purchase securities	**265**	240	204
(3) Commitments to invest in buildings, equipment and in other assets	**261**	239	272
(4) Commitments to underwrite securities	**-**	6	-
(5) Future deposits			
Transactions with depositors for purposes of receipt of large deposits at various future dates and as determined in advance as of the date of the investment fixed interest rates			
Details of future deposits and deposits dates as was determined by the terms of the transactions:			
First year	**3**	17	17
Second year	**17**	17	17
Third year	**17**	17	17
Fourth year	**17**	17	17
Fifth year	**12**	12	12
After five years	**3**	6	3
Total future deposits	**69**	86	83

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

C. In the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including petitions for approval of class actions.

In the opinion of the Management of the Bank and the managements of the consolidated companies, and based on legal opinions regarding the chances of the claims succeeding, including the petitions for approval of class actions, appropriate provisions have been recorded in the Financial Statements, insofar as required, to cover damages resulting from the said claims.

In the opinion of the Management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and against the consolidated companies on various subjects, the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to some NIS 107 million.

1. The following are details of claims in material amounts:

A. On 12 September 2006, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim B.M. and Israel Discount Bank Ltd. The amount claimed in the class action for which approval has been requested is NIS 7 billion, while in the body of the claim, it is contended that the damage to the claimant group amounts to NIS 10 billion. No specific sum of the amount of the claim has been clearly attributed to any of the respondents. According to the petitioner, the respondent banks charged their customers with interest for unlinked shekel credit, a commission for credit allotment and fixed management fees with regard to debitory current accounts at identical rates and amounts, as a result of price coordination and a restrictive arrangement, which are prohibited under the Restrictive Trade Practices Law. The remedy requested by the petitioner is a refund of the alleged over-charging to the respondents' customers, who took unlinked shekel credit or a “retroactive reduction” of the said interest and commission rates that the respondent banks collected during the past decade. The Bank filed its response to the petition for the approval of the claim as a class action. On 21 January 2008, the Tel Aviv District Court granted the petition, and approved the pursuance of the claim as a class action. The Bank submitted a petition for leave to appeal the ruling to the Supreme Court. The Supreme Court’s ruling of 29 May 2008 determined that the Attorney General must submit his position in writing regarding the petition. The Attorney General notified the Supreme Court that he will take part in the proceeding regarding the petitions for leave to appeal submitted by the banks, and will submit his position in writing. On 31 January 2010, the Tel Aviv District Court decided to delay proceedings in the claim until the granting of a decision on the application for leave of appeal submitted to the Supreme Court. On 27 May 2010, the Attorney General submitted his position, the essence of which is that the decision of the District Court cannot remain as is, since identical prices between banks themselves do not provide a basis for a reasonable possibility of the existence of a restrictive arrangement, and that in his opinion the matter should be returned to the District Court for the completion of clarification and the handing down of a new decision. The Supreme Court held that the hearing of the application for leave of appeal will take place before a panel of seven judges. On 14 April 2011, the Supreme Court handed down a decision according to which the parties are to submit their comments to the Court on the implications of the decision by the Anti-Trust Commissioner dated 26 April 2009, under the heading "Restrictive Arrangements between Bank Hapoalim, Bank Leumi, Bank Discount, Bank Mizrahi, and the First International

Bank, concerning the Transfer of Information relating to Commissions"(- **"the decision"**), and that the petitioner is to give notice if she has further evidence on the question of whether interest rates were coordinated between the banks. The parties submitted their comments as mentioned above. On 21 November 2011, the Attorney General submitted a further position dealing with the implications of the decision. The essence of this additional position is that in the view of the Attorney General the decision justifies the approval of a class action. It should be noted that the Attorney General also referred to the decision in the footnotes to his position of May 2010, where it stated that this decision refers to commissions, whereas the decision that is the subject of the appeal refers to interest rates.

B. On 23 November 2006, a claim and a petition to approve the claim as a class action were filed in the Jerusalem District Court against the Bank and against Bank Hapoalim B.M. and Israel Discount Bank Ltd. The petitioners allege that in respect to credit to the households sector, the banks collect interest at a rate that is much higher than that collected from the commercial sector and from the corporate sector, in spite of the fact that the risk in extending credit to the households sector is significantly lower than the risk for those sectors, and that this excessive interest rate derives from the exploitation of the low level of bargaining power of the households sector and from the monopolistic power of the respondents. The petitioners allege that this is an infringement of the Restrictive Trade Practices Law, 1988, which prohibits a monopolist from abusing its position in the market, and that there is a real fear that the lack of competition among the respondents, regarding all matters concerning the households sector, is the result of a restrictive arrangement among the parties.

The petitioners also allege that the interest rate was determined while misleading the consumers regarding the normal price for credit service to the households sector, contrary to the provisions of the Consumer Protection Law, 1981 and the Banking (Service to Customer) Law, 1981.

The petitioners allege that the damage caused to them and the members of the group is the result of the multiple of (1) the gap between the interest rate actually collected and the fair interest rate that would have been established for loans to the households sector in a competitive market, and (2) the amounts of credit that each of the petitioners and members of the group took during the seven years preceding the filing of the claim.

The damage alleged by them is NIS 5.6 billion according to one method, and NIS 5.2 billion according to a second method. The estimated damage attributed to the Bank's customers is at least NIS 1.6 billion. The Bank filed its response to the petition for the approval of the claim as a class action. The District Court granted a petition filed by the Bank for a stay of these proceedings and ordered they be stayed until the Supreme Court renders a decision regarding the petition for leave to appeal filed by the Bank with respect to the decision to approve the claim described in paragraph A. above as a class action. The Supreme Court denied the petition for leave to appeal filed by the petitioners with respect to the District Court's above mentioned decision to stay the proceedings in the claim.

C. On 3 January 2008, 260 identical claims were filed in the Tel Aviv-Jaffa Magistrate's Court against the Bank and receivers who had been appointed by the court. The amounts of the claims vary between some NIS 787,000 and some NIS 1,350,000. Pursuant to the Court's ruling, the proceedings for all the above-mentioned claims were combined, and they will be heard as one claim. The total amount of the claims is some NIS 276 million. The plaintiffs are the purchasers of vacation apartments in the Nofit Hotel in Eilat. According to the plaintiffs, the Bank and the receivers were negligent in supervising the project and refrained from paying for guarding it, as a result of which, the plaintiffs suffered significant damages, including a decline in the value of their apartments. These claims are in addition to five other claims that have been filed against the Bank on the same grounds, and which are being heard separately. The total amount of all the claims in connection with this project is some NIS 288.6 million. On 10 August 2009, the Tel Aviv-Jaffa District Court rejected one of the additional claims which had been submitted separately against the Bank by 3 purchasers and was identical to the above-mentioned 260 claims. The plaintiffs appealed the above ruling. The Court ordered a stay of proceedings in the claims pending judgment on the appeal submitted against the above judgment. On 17 June 2010, the appeal was dismissed, and following this the Bank filed a petition to dismiss the above 260 claims. On 20 June 2010, the Court handed down a decision according to which there are grounds for dismissal of the claims, and requested the parties' response. The plaintiffs notified the Court of their desire to continue proceedings. The plaintiffs filed petitions to amend the claims, and the Bank filed a petition to dismiss the claims outright under the finality of judgment rule. No hearing has taken place yet on these petitions.

D. On 1 April 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, additional banks, and entities that had purchased the control of the mutual fund managers from the banks. The amount claimed against the Bank is estimated by the petitioners at some NIS 131 million.

The petitioners claim that they held and hold units in mutual funds that were managed by fund managers controlled by the Bank. According to the petitioners, beginning in 2004, the Bank charged the fund managers it controlled brokerage commissions with respect to the execution of securities and foreign currency transactions, at a rate higher than the rate it charged other entities, and in so doing acted unlawfully.

According to the petitioners, although the Bank sold its holdings in the fund managers to third parties during 2006, it continues to provide the same services to the mutual funds in exchange for even higher commissions than those charged prior to the sale of the control. The continued provision of the said services suggests that the Bank and the purchasers of the control of the fund managers had agreed that in exchange for a reduction in the price paid for the mutual fund managers, the Bank would continue to provide the trading services that it had provided prior to the sale, in exchange for the high commissions that had been charged up until the sale – a matter which they allege, removes all substance from the sale of the control of the fund managers.

The petitioners argue that they and the other holders of mutual fund units that were or are under the Bank’s control, have suffered damages that reflect the reduction in the value of the mutual fund units due to the alleged over-charging. The Bank has filed its response to the petition for the approval of the claim as a class action.

E. On 26 June 2007, a petition to approve a class action against the Bank, for a claim in the amount of NIS 200 million, was filed in the Tel Aviv- Jaffa District Court. The plaintiff claims that the Bank charges its customers securities deposit management fees that are higher than agreed. He claims that each time he carried out a low volume partial sale of a particular share for which the commission was less than the minimum, the Bank charged him with the minimum commission as well as the management fee collected at the end of the quarter, with the aggregate amount of the two commissions being higher than the agreed maximum management fees that the Bank was entitled to collect. The plaintiff claims that the Bank was required to deduct the minimum commission collected at the time of the partial sale from the total amount of the management fees. The plaintiff also argues that the Bank's documents and notices do not reflect the amounts of the management fees that are actually charged during a single quarter. The Bank has filed its response to the petition for the approval of the claim as a class action. On 8 September 2011, the District Court dismissed the petition for approval of the claim as a class action. On 6 November, the petitioner submitted notice of appeal to the Supreme Court against the decision of the District Court to dismiss the petition for approval of the class action.

F. On 25 September 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, in the amount of some NIS 435 million, which includes 8 different causes of action. Following the Court's ruling pursuant to which the plaintiff was required to choose a single cause of action and have the others stricken from the petition, the plaintiffs informed the court that they had chosen the cause of action which was based on a claim that the Bank charges its customers securities management fees when a security is sold during the quarter, and does not deduct from this sum the minimum amount of management fees the Bank charges the same customer for that quarter. The amount attributed by the plaintiffs on these grounds amounts to some NIS 30 million. On 12 June 2011, a judgment was handed down by the Tel Aviv District Court dismissing the petition for approval as a class action. On 8 September, the plaintiff filed an appeal with the Supreme Court against the verdict which dismissed the petition for approval of the claim as a class action.

G. On 6 May 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv-Jaffa District Court. According to the plaintiff, the Bank charges its customers' accounts with the legal expenses incurred in handling said customers' debts, without obtaining the approval of any legal tribunal, and in violation of the directives of the Supervisor of Banks – "Proper Banking Management Directives – Charging Customers for Attorneys' Fees." Additionally, when the Bank charges its customers' accounts with legal expenses (both those approved by a legal tribunal and those that have not been so approved), the Bank collects interest on such expenses at the interest rate applicable to the account (which in many cases is excess interest on arrears) and not at the interest and linkage rates which the Bank is permitted to collect in accordance with the Adjudication of Interest and Linkage Law, 1961. The requested remedy is the reimbursement of all excess amounts charged by the Bank, without an indication of the amount, although it is alleged that "this is a vast amount" and that the lawsuit is filed in the name of all the Bank's customers whose accounts were charged with legal expenses during the seven years preceding the filing of the petition to approve the class action. The Bank has submitted its response to the petition for approval of the claim as a class action. On 18 October 2009, the District Court approved the claim as a class action. On 15 November 2009, the District Court gave an order postponing the execution of its decision for approval of the claim as a class action, until the decision of the Supreme Court in the appeal by the Bank. On 18 November 2009, the Bank filed an application to the Supreme Court for leave of appeal against the decision of the District Court to approve the class action. In a decision on 1 December 2009, the Supreme Court decided that the application for leave to appeal requires a response, and ordered the plaintiff to submit its response to the application for leave to appeal. The response of the plaintiff was filed on

14 January 2010. A decision has yet to be handed down on the actual application for leave to appeal. Proceedings in the District Court are suspended, pending a decision on the application for leave to appeal. On 27 July 2011, the Bank's petition was dismissed in the Supreme Court to grant the right of appeal against the decision of the District Court approving the claim as a class action.

H. On 28 September 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank and Bank Otzar Hachayal in the amount of some NIS 672 million. According to the allegations, the Bank secretly collects an illegal commission from customers engaged in continuous trading of options on the Tel Aviv 25 stock index (such options consisting of a right to buy or sell the basket of shares comprising the Tel Aviv 25 Index, at a given time and a given price); the banks take advantage of the fact that the amounts pass from the stock exchange to those holding the options through the banks, and an exercise commission of 0.5% is collected from the amounts received by customers who are the holders of expiring options which entitle their holders to a payment; the calculation of the amount due to the option holder is not simple because the expiration index is not an exact amount and is not published in any official publication, meaning that the customer does not know exactly what amount is due to him and cannot know that a commission has been deducted from the amount that he receives. The grounds for the action are based on the fact that the banks did not announce that they collect an exercise commission, they did not include this commission in their agreements with the customers, and they made a false representation to the customers according to which the only commission that they collect is sale and purchase commission. The banks do specify the commission that is collected in a separate notice that they send at later stages, after the transactions have taken place, but according to the plaintiffs, customers such as these do not take note of them and are not capable of analyzing them. The defined group consists of customers who contracted with portfolio managers in connection with the trading of Tel Aviv 25 Index options. According to the plaintiffs they used a narrow definition of this group of customers in order to argue that it is easier to hide the charging of commissions from this group (relative to the group of customers who do not trade through portfolio managers). The relief requested is the damage which is common to all the customers of the banks in respect of the amount of the exercise commissions collected during the past seven years. The Bank has submitted its response to the petition for approval of the claim as a class action.

I. On 4 August 2008, a claim and a petition to approve it as a class action were filed in the Jerusalem District Court against the Bank, Israel Discount Bank, “Kahal” Supplementary Training Funds Management (1996) Ltd. (“Kahal”) and the Supervisor of the Capital Market, Insurance and Savings (as a formal defendant). According to the petitioner, Kahal had transferred, in accordance with the Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005, and at the banks’ instruction, the control of the assets of the provident funds controlled by Kahal to a “different management company” and that the banks allegedly had illegally assumed and appropriated to themselves the consideration amounts that they received from the other management company, for “the transfer of the control of the assets of the provident funds as well as their management and the trusteeship of them,” since a management company and a management company’s controlling shareholder may not receive any benefit whatsoever, directly or indirectly, in connection with the management of a provident fund, other than expenses and management fees. It is claimed that the consideration amounts received for the said transfer of control of the provident funds are proceeds produced by the assets of the provident funds, and their source is the members' rights stemming from such assets, and that this is a profit which therefore belongs to the members of the provident funds and not to any of the defendants. It is claimed that the consideration received by the banks amounts to some NIS 260 million, with the Bank's share in this amount being NIS 149.5 million. The petitioner bases the claim, *inter alia*, on violation of the Control of Financial Services (Provident Funds) Law, 2005, the Joint Investments Trusts Law, 1994, the Unjust Enrichment Law, the Contracts Law, the Banking (Licensing) Law, the Agency Law and the Trusts Law. The group in whose name the approval of the class action is sought is composed of: all members of all the provident funds whose assets were controlled and managed by each of the trust managers (apparently referring to Kahal) that were owned and/or controlled by the respondent bank, and transferred to their replacements. The petitioner added the Supervisor of the Capital Market, Insurance and Savings to the claim and to the petition for approval since, according to the petitioner, the Supervisor is charged with licensing, control and implementation of the provisions of the Provident Funds Law, and it is therefore appropriate that he present his position, both from the substantive and public viewpoints, since this would assist in clarifying and deciding the questions raised in the class action. On 30 June 2009, the court ruled that Kahal was wrongfully added as a respondent and dismissed the petition against it. The Bank has submitted its response to the petition for approval of the claim as a class action. On 11 March 2010, the Attorney-General informed the Court that he would not take part in the proceedings in this claim. On 27 March 2011, the Court handed down a verdict determining that the proceeds of sale of control and management of the provident funds and mutual funds belongs in its entirety to the management companies and the banks, and rejected the claim. The petitioner's petition to delay execution of the appeal with reference to costs granted in their favor – was dismissed. On 19 May 2011, the petitioner filed a petition for leave to appeal the decision of the District Court dismissing the petition for approval of the claim as a class action. On 21 June 2011, the petitioner filed a petition for the exchange of appellants, and at the same time a petition to dismiss the appeal subject to a waiver by the banks of costs granted in their favor. On 9 October 2011, the Supreme Court approved the petition of the plaintiffs to retract the appeal they filed against the decision of the District Court to dismiss the petition for approval of the claim as a class action.

J. On 4 August 2008, a claim and a petition to approve it as a class action were filed in the Jerusalem District Court against the Bank, Leumi Gemel Ltd. and the Supervisor of the Capital Market, Insurance and Savings (as a formal defendant). According to the petitioner, Leumi Gemel transferred, in accordance with the Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005, and at the Bank's instruction, the control of the assets of the provident funds controlled by Leumi Gemel to "different management companies." According to the petitioner, the Bank allegedly illegally assumed and appropriated to itself the consideration amounts that it received from the other management companies, for "the transfer of the control and management of the assets of the provident funds and the trusteeship thereof," since according to the petitioner, a management company, and a management company's controlling shareholder may not receive any benefit whatsoever, directly or indirectly, in connection with the management of a provident fund, other than expenses and management fees. It is claimed that the amounts of consideration received for the said transfer of control of the provident funds are proceeds arising from the assets of the provident funds, and their source is the rights of provident funds members stemming from such assets, and that this is therefore a profit which belongs to the members of the provident funds and not to any of the respondents. The amount being claimed amounts to some NIS 1.0016 billion, which, according to the petitioner, constitutes the consideration received by the Bank from the sale. The petitioner bases the claim, *inter alia*, on violation of the Control of Financial Services (Provident Funds) Law, 2005, the Joint Investments Trusts Law, 1994, the Unjust Enrichment Law, the Contracts Law, the Banking (Licensing) Law, the Agency Law and the Trusts Law. The group in whose name the approval of the class action is sought is composed of: all members of all the provident funds whose assets were controlled and managed by each of the trust managers (apparently referring to Leumi Gemel) that were owned and/or controlled by the respondent bank, and transferred to their replacements. The petitioner added the Supervisor of the Capital Market, Insurance and Savings to the claim and to the petition for approval since, according to the petitioner, the Supervisor is charged with licensing, control and implementation of the provisions of the Provident Funds Law, and it is therefore appropriate that he, both from the substantive and public viewpoints, present his position, since this would assist in clarifying and deciding the questions raised in the class action. The Bank has submitted its response to the petition for approval of the claim as a class action. On 11 March 2010, the Attorney-General informed the Court that he would not take part in the proceedings in this claim. On 27 March 2011, the Court handed down a verdict determining that the proceeds of sale of control and management of the provident funds and mutual funds belongs in its entirety to the management companies and the banks, and rejected the claim. The petitioner's petition to delay execution of the appeal with reference to costs granted in their favor – was dismissed. On 19 May 2011, the petitioner filed a petition for leave to appeal the decision of the District Court, dismissing the petition for approval of the claim as a class action. On 21 June 2011, the petitioner filed a petition for the exchange of appellants, and at the same time a petition to dismiss the appeal subject to a waiver by the banks of costs granted in their favor. On 9 October 2011, the Supreme Court approved the petition of the plaintiffs to retract the appeal they filed against the decision of the District Court to dismiss the petition for approval of the claim as a class action.

K. On 4 August 2008, a claim and a petition to approve it as a class action were filed in the Jerusalem District Court against the Bank, Leumi Pia Trust Management Company Ltd., Psagot Managers of Mutual Funds - Leumi Ltd., Kesselman & Kesselman Trust Company (1971) Ltd., and the Israel Securities Authority (as a formal defendant). According to the petitioner, each manager transferred the control and management of the mutual funds it owned to “different management companies,” in accordance with the Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005, and the Bank allegedly illegally obtained the consideration amounts that it received from the other management companies, for “the transfer of the control and management of the assets of the mutual funds.” According to the petitioner, a management company, trustee and a management company’s controlling shareholder may not receive any benefit whatsoever, in connection with the management of mutual funds, other than expenses and management fees, and it is therefore claimed that the consideration amounts received for the said transfer of control of the mutual funds are proceeds arising from the assets of the mutual funds, and their source is the rights stemming from such assets, and that this is a profit which belongs to the funds and to the owners of the units thereof, and not to any of the respondents. According to the petitioner, the consideration received by the Bank amounts to some NIS 1.885 billion, and this is the amount claimed by the petitioner for the members of the group. The petitioner bases the claim, *inter alia*, on violation of the Joint Investments Trusts Law, 1994, the Unjust Enrichment Law, the Contracts Law, the Banking (Licensing) Law, the Agency Law and the Trusts Law. The group in whose name the approval of the class action is sought is composed of: all owners of units in all the mutual funds whose assets were controlled and managed by each of the managers who were controlled by the Bank, and were transferred to their replacements. The petitioner added the Israel Securities Authority to the complaint and to the petition for approval, since, according to the petitioner, the Authority is charged with licensing, control and implementation of the provisions of the Joint Investments Trusts Law and it is therefore appropriate that, in terms of the public interest, it present its position, since this would assist in clarifying and deciding the questions raised in the class action. The Bank has submitted its response to the petition for approval of the claim as a class action. On 11 March 2010, the Attorney-General informed the Court that he would not take part in the proceedings in this claim. On 27 March 2011, the Court handed down a verdict determining that the proceeds of sale of control and management of the provident funds and mutual funds belongs in its entirety to the management companies and the banks, and rejected the claim. The petitioner's petition to delay execution of the appeal with reference to costs granted in their favor – was dismissed. On 19 May 2011, the petitioner filed a petition for leave to appeal the decision of the District Court, dismissing the petition for approval of the claim as a class action. On 21 June 2011, the petitioner filed a petition for the exchange of appellants, and at the same time a petition to dismiss the appeal subject to a waiver by the banks of costs granted in their favor. On 9 October 2011, the Supreme Court approved the petition of the plaintiffs to retract the appeal they filed against the decision of the District Court to dismiss the petition for approval of the claim as a class action.

L. On 29 October 2009, a claim was filed in the Central District Court for declaratory judgments to the effect that the seven respondent banks (the Bank, Bank Hapoalim, Israel Discount Bank, the First International Bank of Israel, Mizrahi Tefahot Bank, Mercantile Discount Bank and Union Bank) are not entitled to charge the petitioners with "default" interest differentials, as defined in the claim, and that the amount of the default interest differentials must be reduced from an amount of NIS 841 million to an amount of NIS 37 million. Alternatively, they request a ruling that the banks are entitled to charge the petitioners with interest differentials in accordance with the Adjudication of Interest and Linkage Law, 1961 only, this being with regard to the petitioners' debt that had accrued from 12 May 2003 and onwards. The petitioners claim is, *inter alia*, that the "default interest" is nothing other than "agreed compensation" as defined in Section 15(A) of the Contracts Law (Remedies), 1970, which a court may reduce "if it finds that the compensation was established without any reasonable relation to the damage that had been foreseeable as being the reasonable result of a breach at the time the contract was made"; that the reduction of the default interest amounts is also required in accordance with the interpretation of the loan agreement and the intention of the parties; that the charging of the petitioners with default interest will constitute unjustified enforcement of the loan agreement; that the banks' insistence on charging the petitioners with default interest constitutes a lack of good faith, and that the banks' charging of default interest will constitute unjust enrichment on their part. The claim does not make a monetary attribution of a specific claimed share of each of the banks in the amount of the default interest differentials, but details are provided of each bank's participation in the financing, with the Bank's share being claimed to be 24%. On 11 February 2010, a monetary claim was submitted in the amount of some NIS 830 million, instead of the claim for declarative orders which was deleted.

M. On 26 November 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv District Court against the Bank, the First International Bank of Israel Ltd., Union Bank of Israel Ltd. and Mizrahi Tefahot Bank Ltd. The claim is based on damages claimed in the amount of about NIS 68 million (according to the petitioner's calculations), caused to all the customers of the banks from whose profits from interest in respect of debentures and/or dividends in respect of shares, tax was deducted at source, dating from 1 January 2003 until the day the claim was filed. According to the claim, the banks over-deducted tax by deducting tax at source in respect of commissions collected from the income received. According to the petitioner's calculation, the banks should have deducted the commissions from the income subject to deduction at source, and only then carried out the deduction at source. The petitioner bases his claim on Section 17 of the Income Tax Ordinance, which classifies commissions as an expense incurred in the production of income during the tax year, which is to be taken into account in the calculation of taxable income. According to the petitioner's claim, by acting as stated the banks violated their duty of care, fiduciary duty and duty to make proper disclosure towards the group, which apply to them under the Banking Law, the Consumer Protection Law and the Torts Ordinance, as well as the duty of good faith incumbent upon them. It was also claimed that the banks caused the group damage and monetary loss and that their behavior is tantamount to negligence, violation of statutory duties and unlawful enrichment.

N. On 3 May 2010, a petition for approval of a class action was filed in the Central District Court claiming an amount of some NIS 209 million as of the date the claim was filed. The claim also includes additional non-monetary reliefs. The plaintiff is interested in representing all those holding debentures of Heftziba Hofim Ltd. ("Heftziba Hofim"), prior to the suspension of their trading at the beginning of August 2007. The petitioner claims that during the years 2006-2007, prior to the end of each quarter, the Bank granted loans in amounts of tens of millions of shekels to a company wholly owned by Mr. Boaz Yonah. According to the petitioner's claim, these funds were immediately transferred to the account of Heftziba Hofim, so as to provide temporary cover for withdrawals of funds by Mr. Yonah from Heftziba Hofim, and, at the beginning of each successive quarter, the monies were withdrawn from the funds of Heftziba Hofim, transferred to Mr. Yonah's private accounts, and from there, returned to the Bank. The petitioner claims that the purpose of the above financial activities was to distort the financial statements of Heftziba Hofim, so as to make temporary false presentations to the public regarding the true condition of Heftziba Hofim. The petitioner claims that as a result of cooperation by the Bank and the false representations made to the public the investments of those holding debentures of Heftziba Hofim were eventually written off. According to his claim, warning signs of the crisis in the company were concealed from the debenture holders which could have induced them to immediately sell their holdings; and vital information was withheld from those joining during the creation of the alleged misrepresentations which could have prevented them investing in the debentures of Heftziba Hofim. The Bank's response has been filed to the petition for approval of the claim as a class action.

2. In addition, there are legal claims pending against the Bank, including petitions for approval of class actions, as detailed below. In the opinion of the Management of the Bank, based on legal opinions with regard to the chances of these legal proceedings, it is not possible at this stage to estimate the chances of the claims and therefore no provision has been recorded in respect thereof.

A. On 30 June 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Israel Discount Bank Ltd. and Bank Hapoalim B.M., (hereinafter: "the Banks"). The claim relates to the commissions charged by the banks for various banking services provided by them to their private customers (“operating” commissions, as distinguished from commissions for the allocation, granting and handling of credit, which are not part of the claim). It is claimed that the banks had agreed among themselves regarding the increase or reduction of the rates of the commissions, and that it is suspected that agreements were also reached regarding the creation of new commissions. It is claimed that in so doing , the banks maintained an illegal restrictive arrangement regarding the rates of the commissions they collect from their customers, that they abused their monopolistic power (the banks constituting, it is argued, an oligopoly), and that they unjustly enriched themselves at the expense of their customers. The petition claims that, because of these said restrictive arrangements, the banks’ customers paid an unfair rate for the commissions, higher than would have been paid were it not for the existence of the cartel that prevented free competition. The calculation of the amount claimed is presented as being derived from the banks’ income from commissions paid by households and those resulting from private banking. It is claimed, as an estimation, that half of this income was collected following the coordination of rates as a result of the restrictive practices, and had the rates not been coordinated between the banks, the commissions would have been significantly lower, by at least 25%. Therefore, in accordance with the various assumptions indicated in the petition, the total aggregated amount of the damage is estimated in the amount of NIS 3.5 billion, while the petition’s caption indicates that the amount of the claim is NIS 3 billion. No specific attribution has been made of the damage claimed to each of the banks, but the petition mentions that the banks' relative share of banking activity in Israel is estimated at some 30%. The Bank submitted its response to the petition for approval of the claim as a class action. On 1 June 2009, the petitioners filed a petition to attach as evidence, within the framework of the petition for approval as a class action, the Antitrust General Director’s determination, dated 26 April 2009, pursuant to which the banks (Leumi, Hapoalim, Discount., Mizrahi Tefahot and First International) had maintained restrictive trade agreements regarding the transfer of information concerning commissions, as evidence in the framework of the application to approve the claim as a class action. The respondent banks opposed this and, on 6 October 2009, the Court decided that the hearing on the petition to attach the Director’s determination is superfluous in view of its decision to incorporate the hearing on the claim in a later claim (for details see Paragraph B below), to which the Director’s determination would be attached anyway. On 29 November 2009, the Court decided to stay proceedings in the claim for two years (subject to the provisions set out in that decision), in view of the respondents' intention to submit a petition for leave to appeal the Director’s determination in the Antitrust Court. In the opinion of the Bank's Management, which is based on the opinion of the Bank's legal advisors, it is not possible at this stage to estimate the chances of the petition.

B. On 27 April 2009, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank, Mizrahi Tefahot Bank and the First International Bank. The petition is based on the Antitrust Commissioner’s determination of 26 April 2009. The petitioners allege that in accordance with the determination, the banks made restrictive arrangements regarding the exchange of information concerning commissions, which harmed the competition between them, and caused damage to the members of the group whose representation is sought in the petition, and that such was reflected in overpayments of commissions. The petitioners estimate the amount of the claim sought in the class action against all the respondents at NIS 1 billion, while noting that this is merely an estimate and reserving their right to amend the amount at a later time. The petition does not make any clear attribution of a specific claimed amount to each of the respondents and the matter of requesting provisions for linkage and interest is not sufficiently addressed. The petitioners claim that they have a cause of action because of the existence of the said restrictive arrangements between the banks, which could and have harmed competition. These arrangements, they argue, fall both within section 2(a) of the Restrictive Trade Practices Law and within section 2(b)(1) of the Restrictive Trade Practices Law. Proceedings in the petition for approval have been delayed for two years, as stated in the decision of 29 November 2009, described in paragraph A. above. In the opinion of the Bank's Management, which is based on the opinion of the Bank's legal advisors, it is not possible, at this stage, to estimate the chances of the petition.

C. On 27 March 2011, a petition for approval of a class action was filed in the Tel-Aviv District Court against the Bank. The petitioners' claim is that the Bank gave unilateral credit facilities, and charged commissions for them, and also charged interest exceeding the rate of interest stipulated for the highest band for that credit limit, despite the explicit instructions of the Supervisor of Banks in Proper Conduct of Banking Business Directive No. 325 prohibiting this. In addition, the petitioners claim that the action should be heard as a class action, and that the aggregate damage from the date that the aforementioned Directive No. 325 came into force, is estimated by them at some NIS 90 million. The main reliefs claimed in the framework of the class action are therefore: first, to hand down a declaratory judgment according to which the Bank is prohibited to charge excess interest charges or commissions, in any shape or form, in respect of the provision of unilateral credit to a customer who is a party to an agreement for an approved credit line; secondly, to order the Bank to refund to the petitioner and to the group those amounts paid by them to the Bank for commission in respect of excess interest charges and unilateral credit and/or temporary credit. In the view of Bank management, based on the opinion of the Bank's legal advisors, it is not possible at this early stage to evaluate the chances of the petition. The Bank has filed its response to the petition for approval of the claim as a class action.

D. On 13 July 2011, a petition was filed in the Tel-Aviv District Court for approval of a class action against Automatic Bank Services Ltd. (hereinafter: "ABS") and against Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., First International Bank of Israel B.M., and Israel Discount Bank B.M. (hereinafter: "the petition for approval"). ABS is a service company jointly owned by the banks mentioned above, whose activities include operating an independent network of automatic teller machines (ATM). At the heart of the petition for approval is the claim that when withdrawing cash from an ATM operated by ABS, the user is not provided with fair disclosure, that in addition to the commission charged by ABS for the withdrawal, he will be charged by the bank, in which his account is held, with an additional commission for execution of a "transaction by direct channel" (or a ledger fee). With regard to the respondent banks, the petitioners claim that they are responsible for all omissions by ABS by virtue of their being its shareholders and controlling owners. In addition, it is claimed in the petition that the banks are not authorized to charge its customers an additional commission, after they were already charged for the withdrawal by ABS. Thus it is claimed that the banks are charging their customers with a double commission.

In addition, the petitioners base their case on a contractual claim, and claim that when the user agreed to withdraw cash from ABS's ATM, a binding contract was formed between the user, ABS, and the respondent banks, according to which in consideration for the withdrawal transaction, the user would be charged only for the amount of commission appearing on the ATM screen. According to their claim, the fact that the respondent banks charge an additional commission, amounts to breach of this contract. It is further claimed that the charging of commission by the banks where commission is charged by ABS, contravenes the Banking Regulations (Service to the Customer) (Commissions), 2008, whereas the regulations permit the charging of one commission and not two.

The total amount of the class action filed, in the opinion of the petitioners, is NIS 153 million (in respect of commissions charged over the last seven years), with the addition of linkage differentials and interest. There are no details of the distribution between the defendants. In the view of Bank management, based on the opinion of the legal advisors of the Bank, it is not possible at this early stage to assess the chances of the petition.

E. On 6 September 2011, a petition for approval as a class action was filed in the Tel Aviv District Court against the Bank regarding the non-payment of interest and linkage differentials on credit amounts due to the customer in respect of charges that the Bank collected excessively. The total damage for the group is estimated by the petitioner at an amount of about NIS 40 million, for a period of seven years preceding the date of filing the claim, and that is based on hypothetical assumptions regarding the number of accounts held at the bank, an average rate of the number and amounts of incorrect charges to an account per year, and the amount of interest and linkage differentials estimated in the case.

3. The following are details of claims and petitions for approval of class actions in material amounts that were filed against subsidiary companies of the Bank (hereinafter: "subsidiary companies"). In the opinion of the Management of the Bank, and in reliance on the opinion of the management of each of the subsidiary companies, based on the opinion of the legal advisors to the subsidiary companies as to the chances of these proceedings, appropriate provisions have been included in the Financial Statements, insofar as required, to cover damages resulting from such claims:

A. On 21 June 2000, a petition for approval of a class action was filed against Leumi Mortgage Bank Ltd. (hereinafter: "Leumi Mortgage Bank") in the Tel Aviv-Jaffa District Court based on the Banking (Service to Customer) Law, 1981, Regulation 29 of the Civil Procedure Regulations, 1984, and the Supervision of Insurance Practices Law, 1981. The amount of the claim for which approval as a class action has been requested, is estimated by the petitioners at some NIS 100 million.

The petitioners, who took out loans from Leumi Mortgage Bank, are making claims regarding the value of buildings for purposes of property insurance in the framework of loans taken from Leumi Mortgage Bank. According to the petitioners, Leumi Mortgage Bank, or its representatives, prepared excessive valuations of the buildings, resulting in overpayment of premiums by Leumi Mortgage Bank customers. The petitioners contend that this was also done in their case. In accordance with the decision of the District Court, the hearing of the claim has been stayed until the appeals regarding the matter mentioned in Note 4A. below are decided. The petition filed by the petitioners for the cancellation of the stay in proceedings was rejected by the court, which decided that the stay in proceedings in the claim still stands.

B. On 2 December 2006, a petition to approve a class action was filed in the Tel Aviv - Jaffa District Court against Leumi Mortgage Bank and against Migdal Insurance Company Ltd. ("Migdal") regarding the partial payment of life insurance compensation. The estimated amount of the class action, as claimed by the petitioner, is NIS 150 million.

The petitioner and her deceased spouse took a loan from Leumi Mortgage Bank. According to what is alleged in the request: borrowers who took out loans from Leumi Mortgage Bank were able to join a life insurance arrangement for borrowers, in which the insurer was Migdal; included among the borrowers who joined the said life insurance were borrowers who, when an insurance event occurred, received partial insurance compensation at a rate lower than the amount of the insurance and of the balance of the loan; contrary to the amount actually paid, Leumi Mortgage Bank and Migdal had promised to pay such insured-borrower parties "insurance compensation at the level of the loan balance due or at the level of the amount of insurance (the lower of them)" – so alleges the petitioner. On 18 January 2009, the Court issued a decision ordering the application of proceedings laid down in the law for approving a settlement agreement signed by the parties, including carrying out a number of actions for examining of the approval of the agreement and the appointment of an examiner. The parties reached a compromise arrangement in the suit, and on 7 September 2010, the Tel-Aviv District Court approved the arrangement with certain changes. On 28 October 2010, an appeal was filed by the representative of the plaintiff with the Supreme Court against the approval of the compromise arrangement, in which the Supreme Court was requested to approve the arrangement as is, without changes concerning professional fees for the representative of the plaintiff, and the special compensation for the plaintiff ordered by the District Court. In accordance with a decision of the court dated 9 January 2011, the executed part of the arrangement will be implemented in the first stage, which will not be affected by the results of the appeal, and in accordance with the results of the appeal, the remaining parts will be completed and carried out as necessary. The part of the compromise arrangement which could be affected by the appeal will, in the meantime, be deposited on trust with the petitioner's agent.

C. On 5 April 2009, a petition for approval of a class action was filed with the Tel Aviv-Jaffa District Court against Standard & Poor’s Ma’alot Ltd., World Currencies Ltd., the Bank Leumi Le-Israel Trust Company, Eran Fuchs, Rony Biram, Yaakov Harpaz and Excellence Investments Ltd. The amount claimed against all the respondents in the class action stands at NIS 84 million. The complaint makes no clear attribution of a specific claimed amount against any of the respondents. According to the petitioner, Ma’alot failed in its rating of debentures issued by World Currencies Ltd., in that it reduced the rating of the debentures from AAA to D only after the insolvency of the Lehman Group, despite information regarding the Lehman Group’s difficulties that had been previously publicized, and that Ma’alot created a false and misleading representation to the debenture-holders, to the effect that there was no change in the level of the debentures’ risk and/or that the deterioration of the Lehman Group’s condition was not relevant to the level of the debentures’ risk. The petition alleged that World Currencies was required to report to the debenture-holders regarding the financial entity backers and the mechanism according to which the Notes’ risks were divided amongst them. It further alleged that World Currencies should have reported to the debenture-holders regarding the implications of the Lehman Group’s deterioration with respect to the chances that the debentures would be repaid, and regarding the fact that the Lehman Bank was in significant business difficulty. It was further claimed that World Currencies unlawfully refrained from publishing immediate reports regarding these matters, and that, as a result, the debenture-holders suffered massive damage. Excellence is a shareholder and a controlling shareholder of World Currencies. Regarding the Trust Company, which served as the trustee for the holders of the debentures issued by World Currencies, the petitioner alleges that it did not do all that it could in order to ensure the fulfillment of World Currencies' obligations to the debenture-holders as established in the prospectus, because it should have requested that World Currencies inform the debenture-holder public regarding the identity of the financial entities with which World Currencies had contracted regarding the purchase of the Notes and the mechanism according to which the risks were divided amongst them, and that it should have demanded that World Currencies provide information regarding consequences of the Lehman Group's condition for the rating of the debentures and/or regarding the ability of World Currencies to repay the debentures. The petitioner further alleges that once the Trust Company became aware of the difficulties that the Lehman Bank was encountering, it should have demanded of World Currencies that it replace the Notes with notes of other financial entities, in order to reduce the scope of the damage caused to the debenture-holders. The Court decided that this claim would be combined with a petition for approval of a previous claim as a class action filed in relation to the issue of those debentures. The company's response has been submitted to the request for approval of the claim as a class action.

D. On 23 June 2009, a petition for approval of a class action was filed with the Tel Aviv-Jaffa District Court against Standard & Poors Ma'alot Ltd., Keshet Debentures Ltd. ("Keshet"), Bank Leumi le-Israel Trust Company ("the Trust Company"), Aaron Biram, Eran Fuchs, Moti Ma'aravi, Rami Ordan, Excellence Nessuah Underwriting (1993) Ltd. and Expert Financing Ltd. The amount claimed against all the respondents in the class action stands at some NIS 220 million. The complaint makes no clear attribution of a specific claimed amount against any of the respondents. According to the petitioner, Ma'alot failed in its rating of the debentures issued by Keshet, in that it reduced the rating of the debentures from AA+ to D only after the Lehman Group's insolvency, despite information regarding the Lehman Group's difficulties that had been publicized previously, and that Ma'alot created a false and misleading representation to the debenture-holders, to the effect that there was no change in the level of the debentures' risk and/or that the deterioration of the Lehman Group's condition was not relevant to the level of the debentures' risk. The petition alleged that Keshet was required to report to the debenture-holders regarding the implications of the Lehman Group's business deterioration with respect to the chances that the debentures would be repaid, and with regard to the fact that a company in the Lehmann Group ("Lehman Bank") was in significant business difficulty. It was further alleged that Keshet should have published an immediate report regarding the absolute dependence on the income from the Notes backing the debentures, and regarding the significant danger concerning its ability to make payments with respect to the debentures. It was further claimed that Keshet was negligent to the point of being in breach of trust in failing to take measures to prevent a failure to pay the debenture holders, including failing to do the following: take measures to replace the Notes that backed the debentures; request that Ma'alot update and/or adjust and/or change the debentures' rating. It was further alleged that Keshet failed in not insuring the deposits and in issuing debentures that were backed in full by the assets of only one bank. In addition, it was alleged that Keshet significantly reduced the extent of its assets through a significant change in the service agreement between it and Excellence Investments (which controls Excellence Nessuah). Excellence Nessuah Underwriting (1993) Ltd. and Expert Financing Ltd.

are the owners, in equal parts, of Keshet. Regarding the Trust Company, which served as the trustee for the holders of the debentures issued by Keshet, the petitioner alleges that it did not do all that it could in order to ensure the fulfillment of Keshet's obligations to the debenture-holders as established in the prospectus, because it should have asked Keshet to inform the debenture-holder public regarding the implications of the Lehman Bank's deterioration for the debentures' rating and/or for Keshet's ability to repay the debentures at the time set for their repayment. The petitioner further alleges that once the Trust Company became aware of the difficulties that the Lehman Bank was encountering, it should have demanded that Keshet replace the Notes with notes of other financial entities, in order to reduce the scope of the damage caused to the debenture-holders. It is further alleged that the Trust Company should have requested that Keshet insure the deposits, for the purpose of insuring the funds that the public had effectively invested in the Lehman Bank. This petition was dismissed and its contents and the parties to it were combined in a petition for approval as another class action for the amount of NIS 286 million, which was submitted in connection with the above debentures (The Trust Company was not a party to the other petition in its original version, before combining both versions). The company's response was filed to the petition for approval of the claim as a class action.

E. On 19 August 2007, a petition for approval of a class action was filed in the Jerusalem District Court against Leumi Mortgage Bank, together with the text of the class action claim regarding the joining of an "additional borrower" to some of the loans granted by Leumi Mortgage Bank. The amount of the class action is estimated, according to the petitioners, at over NIS 5 million.

The petitioners are claiming that Leumi Mortgage Bank demanded the joining of an "additional borrower" within the framework of a loan taken out. According to the petitioners, the additional borrower is not a borrower at all but a fiction, and in fact he is a guarantor of the loan. The petitioners claim that if the person joined as an "additional borrower" was actually joined as a guarantor of the loan, he would not have been required to take out life insurance for the purposes of the loan, as he was required to do in practice.

The petitioners are requesting the approval of a class action on behalf of all people who were classified as "additional borrowers" by Leumi Mortgage Bank, who have no rights to the pledged property and who, in connection with the loan, were required to take out life insurance and pay insurance premiums in respect thereof, either directly or through the principal borrowers, during the seven years prior to the filing of the petition.

The petitioners are requesting the reimbursement of insurance premiums that were paid as mentioned, and an order instructing Leumi Mortgage Bank to cancel the requirement to take out life insurance, and the pledging thereof with regard to the additional borrowers who are members of the group.

On 1 November 2011, the plaintiffs and their representative filed a petition for removal from the petition for approval of the claim as a class action and from the class action, in light of the poor chances of the petition for approval as a class action and the decision of the Haifa District Court in Civil Appeal 4735/07 which dealt with the issue of the "additional borrower" and accepted the position of Leumi Mortgage Bank. On 10 November 2011, the District Court approved the removal and ordered the dismissal of the petition for approval as a class action, and the dismissal of the personal claim of the petitioners.

4. In addition, the claims and petitions for approval of class actions set out below are pending against subsidiary companies. In the opinion of Bank Management, in reliance on the opinion of the management of each of the subsidiary companies, which is based on the opinion of the legal advisors of the subsidiary companies with regard to the chances of these legal proceedings, it is not possible at this stage to estimate their chances, and therefore no provision has been recorded in their respect. The following are details of the legal proceedings:

A. On 17 July 1997, a petition for approval of a class action in an amount exceeding NIS 1 billion was filed with the Tel Aviv-Jaffa District Court against Leumi Mortgage Bank and against other mortgage banks in connection with the collection of borrowers' life insurance and property insurance commissions. Each of the petitioners took out a loan from one of the respondent mortgage banks. According to the petitioners, in the context of taking out the loan, they were included in life insurance or property insurance policies taken out through the respondent banks and, according to their assertions, part of the insurance premiums illegally reached the respondent banks.

On 17 November 1997, the Court ruled that the claim could not be heard as a class action according to the Banking (Service to Customer) Law, 1981, and the Restrictive Trade Practices Law, 1988. Accordingly, the Court struck off the monetary claim.

Nevertheless, the Court decided that the claim could be heard in the framework of Regulation 29 of the Civil Procedure Regulations, 1984, but only with regard to the claim for declaratory relief relating to causes of action that had arisen before 10 May 1996. The Court ruled that the causes of action that could be heard in this framework related to the "restrictive arrangement and various insurance issues.”

Appeals to the Supreme Court submitted against this decision by Leumi Mortgage Bank, all the other respondent mortgage banks and the petitioners, are pending. Pursuant to the decision of the Supreme Court, implementation of the District Court's decision was stayed. Accordingly, the claim will not be determined until the Supreme Court rules with regard to all the appeals.

On 1 September 2005, the Supreme Court handed down a judgment in which it was determined, in short, that although it was possible to utilize interpretive means to convert Regulation 29 into an instrument for submission of class actions, such utilization was not appropriate at that time, mainly because of the legislative procedures underway in the field of class actions; and on 12 March 2006, the Class Actions Law was published. On 25 September 2008, the court approved the withdrawal of one of the petitioners from the claim. The petition to add another petitioner to the claim, in place of the one who withdrew, is pending in court.

Pursuant to arbitration proceedings, a compromise arrangement between the parties was filed with the court, in accordance with which all the banks responding to the petition will pay a total amount of NIS 17 million as a donation to selected public charities, and a further total sum of NIS 3 million as remuneration and professional fees to the petitioners and their representatives, thus ending all legal proceedings in the claim. Leumi Mortgage's share of the payment amounts to 27.601%. Leumi Mortgage Bank made a provision in an amount covering its share in accordance with the said agreement. In the rulings of the court on 12 July 2011 and 7 August 2011, the court approved the compromise arrangement under the provisions of section 19 of the Class Actions Law, 2006, and ordered publication in the press of the compromise arrangement and the rulings of the court. This publication was made on 25 September 2011 and 26 September 2011, which included, *inter alia*, the date for objections to the compromise arrangement, if any. No objection whatsoever was filed during this period. On 17 November 2011, the Attorney General filed a petition to extend the period for filing his position with regard to the compromise arrangement by another 45 days.

B. On 6 September 2011, a petition for approval of a class action was filed in the Tel Aviv District Court concerning the rate of interchange fees in credit card settlement agreements. The claim was filed against LeumiCard and the Bank, and against C.A.L., Discount Bank, First International Bank, IsraCard, and Bank Hapoalim, with the petitioners claiming that damages could reach an amount of approximately NIS 4.8 billion against all defendants. The claim was fixed for a total of NIS 1 billion. The petitioners claim that interchange fees in actual use was excessive, causing disproportionate clearing fee payment by vendors, and the loading of these excess costs on the price of products and services eventually paid by the consumer.

C. On 7 September 2011, a petition for approval of a class action was filed against Leumi Mortgage Bank, Mizrahi Tefahot Bank Ltd. and Bank Hapoalim B.M. The amount of the class action claimed against all the respondent banks is approximately NIS 927 million as at 1 January 2010, and the amount of the class action against Leumi Mortgage Bank is about NIS 327 million. The petitioners claim that the respondent banks charged housing-loan takers "compound interest in advance", in violation of the law and contrary to the loan agreements, which stipulate that only the unpaid balance of principal will bear interest. The reliefs claimed are payment of compensation and/or reinstatement of damage caused to borrowers and the amounts charged illegally, and a court order against the respondent banks to change the way they act in all areas related to charging and collecting interest.

D. The Israel Corporation Ltd.

1. Legal claims been made against certain investee companies of the Israel Corporation Ltd. contending that personal and property damage caused to the plaintiffs resulted from the pollution of the Kishon River, in which the plaintiffs contend the above mentioned investee companies had a part, and, against a consolidated company, legal proceedings are taking place, legislation has been enacted and orders have been issued concerning the activity of this company.

   The managements of the above companies, based on the opinions of their legal advisers, cannot estimate the amount of the exposure from the said claims and demand, if any, and therefore no provision has been made in this regard in the financial statements of the Israel Corporation Ltd. and of its consolidated companies.

2. A consolidated subsidiary of the Israel Corporation is dependent on receiving services from infrastructure companies and companies supplying natural gas in order to carry on its activities.

3. As at 30 September 2011, a consolidated subsidiary of the Israel Corporation was in compliance with the updated financial standards determined with the financing banks. However, the consolidated subsidiary estimates that it will not be in compliance with certain financial standards beginning in the reporting period ending on 31 December 2011.

   Accordingly, the subsidiary company applied to the relevant banks and requested waivers of or amendments to the relevant financial standards. As of the date of approval of the financial statements of the Israel Corporation, the subsidiary managed to reach understandings or obtain waivers or amendments from most of the relevant banks (The understandings, waivers and amendments are contingent on the agreement of the remaining relevant banks).

For further details of these matters, see the financial statements of the Israel Corporation Ltd. as at 30 September 2011.

E. On 26 April 2009, the Bank received the decision of the Antitrust Commissioner under section 43(a)(1) of the Antitrust Law, 1988, according to which there were restrictive trade agreements regarding the transfer of information on commissions between the Bank and Bank Hapoalim, Bank Discount, Bank Mizrahi, and the First International Bank, from the beginning of the 1990's up until the commencement of the investigation by the Authority, in November 2004. This is a civil decision constituting *prima facie* evidence in decisions about it in any legal proceedings. The Bank has filed an appeal against this decision. On 22 February 2011, the Commissioner's response to the appeal was filed. Following agreement between the parties, this appeal and additional appeals filed by other banks were transferred to arbitration proceedings after the Restrictive Practices Court requested the parties to do this. At this stage, it is not possible to assess the implications of the decision.

F. Further to details given in Note 18(K)(2) in the 2010 Annual Report, referring to the verdict of the Restrictive Practices Court in connection with determining a suitable methodology for calculating interchange commission, the opinion of the Chief Economist of the Antitrust Authority, by virtue of his role as expert on behalf of the court, was submitted to the Restrictive Practices Court on 23 May 2011 (hereinafter: "the opinion on behalf of the Court"). The rate of interchange commission as calculated in the opinion on behalf of the Court is less than that used currently in accordance with the arrangement submitted for approval by the Court. The petitioners for approval of the arrangement (the Leumi Card and C.A.L. credit card companies, and their controlling banks) dispute some of the decisions and assumptions in the said opinion on behalf of the Court, and during September 2011 three opinions were filed with the Court of experts on their behalf indicating errors appearing in the opinion on behalf of the Court. Following the submission of the opinion, hearings are expected to take place in the Court, during which the Chief Economist and the other experts will be cross-examined on their opinions, following which the Court will be required to determine the proper rate of interchange commission, and then to decide whether or not to approve the arrangement submitted to the Court for approval as stated above. In the context of the opinion on behalf of the Court, it was stipulated that any reduction in the commission should be gradual, so as to enable the credit card companies to make preparations and adjustments to the new situation.

The average rate of interchange commission before 1 November 2011 was 0.975%.

On 7 August 2011, the decision of the Court was handed down by which the period of the temporary permit given to the petitioners for approval of the arrangement was extended until 31 December 2011 provided that the average rate of cross-commission shall not exceed 0.875% as of 1 November 2011.

The above arrangement is expected to materially affect both Leumi Card's income as an issuer and also its expenses as a clearer in the coming years.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates

Reported Amounts (Unaudited)

A. Scope of Activity

	30 September 2011				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Forward contracts	-	-	9	-	-
Swaps	-	3,244	-	-	-
Total	-	3,244	9	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	3,088	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	14,512	-	394	1,245
Forward contracts	11,763	17,563	158,936	-	1,124
Traded options					
Options written	-	-	5,921	10,595	18
Options purchased	-	-	5,993	10,595	19
Other options					
Options written	15	32,483	34,682	1,206	755
Options purchased	-	29,358	31,346	1,411	733
Swaps	966	174,663	21,016	5,410	949
Total	12,744	268,579	257,894	29,611	4,843
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	86,097	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-
Spot foreign exchange contracts	-	-	10,857	-	-
Total	-	-	10,857	-	-
Overall total	12,744	271,823	268,760	29,611	4,843

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the asset and liability management function of the Bank that were not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts (Unaudited)

A. Scope of Activity (cont'd)

	30 September 2011				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	10	-	-	-
Gross negative fair value	-	172	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	114	6,079	4,977	236	80
Gross negative fair value	360	6,172	5,661	238	76
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the					
banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-

(1) Except credit derivatives.

(2) Derivatives constituting part of the asset and liability management function of the Bank that were not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts (Unaudited)

A. Scope of Activity (cont'd)

	30 September 2010				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	Shekel – index	Other			
	(NIS millions)				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Forward contracts	-	-	6	-	-
Swaps	-	2,238	-	-	-
Total	-	2,238	6	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	1,956	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	10,347	-	249	771
Forward contracts	7,612	10,847	134,764	-	424
Traded options					
Options written	-	-	6,617	8,193	19
Options purchased	-	-	6,586	8,193	26
Other options					
Options written	20	18,841	39,355	4,873	138
Options purchased	-	13,202	37,885	5,261	143
Swaps	1,182	126,795	16,733	346	1,037
Total	8,814	180,032	241,940	27,115	2,558
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	65,633	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	1,950
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	758
Spot foreign exchange contracts	-	-	16,287	-	-
Total	-	-	16,287	-	2,708
Overall total	8,814	182,270	258,233	27,115	5,266

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the asset and liability management function of the Bank that were not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Unaudited)

A. Scope of Activity (cont'd)

	30 September 2010				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	19	-	-	-
Gross negative fair value	-	105	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	101	3,661	4,338	1,043	276
Gross negative fair value	371	4,397	5,001	1,030	285
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	1	-	-	-
d) Credit derivatives					
Credit derivatives in which the					
banking institution is a guarantor					
Gross positive fair value	-	-	-	-	1
Gross negative fair value	-	-	-	-	49
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	5
Gross negative fair value	-	-	-	-	-

(1) Except credit derivatives.

(2) Derivatives constituting part of the asset and liability management function of the Bank that were not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Audited)

A. Scope of Activity (cont'd)

	31 December 2010				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Swaps	-	2,563	-	-	-
Total	-	2,563	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,354	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	14,594	-	499	756
Forward contracts	7,160	9,010	155,524	-	276
Traded options					
Options written	-	-	5,104	8,908	9
Options purchased	-	-	5,031	8,908	11
Other options					
Options written	15	17,584	34,802	4,914	19
Options purchased	-	16,610	33,896	4,920	23
Swaps	980	121,111	18,533	412	646
Total	8,155	178,909	252,890	28,561	1,740
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	61,573	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	1,593
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	741
Spot foreign exchange contracts	-	-	14,108	-	-
Total	-	-	14,108	-	2,334
Overall total	8,155	181,472	266,998	28,561	4,074

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the asset and liability management function of the Bank that were not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Audited)

A. Scope of Activity (cont'd)

	31 December 2010				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	32	-	-	-
Gross negative fair value	-	43	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	42	2,895	4,439	1,223	80
Gross negative fair value	336	2,973	5,373	1,221	82
c) Other derivatives (1)					
Gross positive fair value	-	1	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the					
banking institution is a guarantor					
Gross positive fair value	-	-	-	-	4
Gross negative fair value	-	-	-	-	13
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	1
Gross negative fair value	-	-	-	-	-

(1) Except credit derivatives.

(2) Derivatives constituting part of the asset and liability management function of the Bank that were not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts

B. Credit Risk in Respect of Derivative Instruments According to Counterparty of the Contract

	30 September 2011					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(Unaudited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	**214**	**6,770**	**415**	**1**	**4,096**	**11,496**
Off-balance sheet credit risk in respect of derivative instruments (3)	**1,429**	**27,372**	**3,186**	**98**	**13,141**	**45,226**
Total credit risk in respect of derivative instruments	**1,643**	**34,142**	**3,601**	**99**	**17,237**	**56,722**

	30 September 2010					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(Unaudited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	642	4,689	431	-	3,682	9,444
Off-balance sheet credit risk in respect of derivative instruments (3)	1,157	24,437	2,096	18	10,679	38,387
Total credit risk in respect of derivative instruments	1,799	29,126	2,527	18	14,361	47,831

	31 December 2010					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(Audited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	280	4,864	373	-	3,200	8,717
Off-balance sheet credit risk in respect of derivative instruments (3)	1,182	25,081	1,776	-	10,596	38,635
Total credit risk in respect of derivative instruments	1,462	29,945	2,149	-	13,796	47,352

(1) Net accounting arrangements are not carried out.
(2) Of which, balance sheet balance from stand-alone derivative instruments - NIS 11,496 million (30 September 2010 – NIS 9,444 million, 31 December 2010 – NIS 8,717 million).
(3) Off-balance credit risk of derivative instruments (including derivative instruments with negative fair value) as calculated for purposes of single borrower debt limitations.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts

C. Repayment Dates – Nominal Amounts

	30 September 2011				
	Up to three months	From three months to one year	From one year to five years	More than five years	Total
	(Unaudited)				
	(NIS millions)				
Interest (Swap) contracts:					
Shekel – index	**1,983**	**6,103**	**4,045**	**613**	**12,744**
Other	**23,315**	**59,266**	**83,361**	**105,881**	**271,823**
Foreign currency contracts	**156,858**	**88,506**	**10,483**	**12,913**	**268,760**
Contracts in respect of shares	**24,963**	**4,123**	**525**	**-**	**29,611**
Commodities and other contracts	**2,404**	**2,026**	**413**	**-**	**4,843**
Total	**209,523**	**160,024**	**98,827**	**119,407**	**587,781**
Total September 2010 (Unaudited)	206,847	122,656	83,676	68,519	481,698
Total December 2010 (Audited)	214,509	126,973	72,371	75,407	489,260

Note 8 – Balances and Fair Value Assessments of Financial Instruments
Reported amounts

	30 September 2011 (Unaudited)				31 December 2010 (Audited)			
	Value in Balance Sheet				Value in Balance Sheet			
	(a)	(b)	Total	Fair value	(a)	(b)	Total	Fair value
	(NIS millions)							
Financial assets								
Cash and deposits with banks	18,001	36,661	54,662	54,624	8,446	21,606	30,052	30,035
Securities	38,356	-	38,356	38,356	55,791	-	55,791	55,791
Securities borrowed or purchased under resale agreements	1,252	-	1,252	1,252	1,190	-	1,190	1,190
Net credit to the public	25,610	211,705	237,315	237,438	22,901	201,080	223,981	226,263
Credit to governments	-	403	403	422	16	363	379	409
Assets in respect of derivative instruments	11,496	-	11,496	11,496	8,716	-	8,716	8,716
Other financial assets	942	3	945	945	670	-	670	670
Total financial assets	95,657	248,772	344,429	344,533	97,730	223,049	320,779	323,074
Financial liabilities								
Deposits of the public	63,662	203,587	267,249	268,601	63,403	186,181	249,584	251,210
Deposits from banks	3,630	2,697	6,327	6,272	1,391	1,300	2,691	2,692
Deposits from governments	37	406	443	477	225	435	660	688
Securities lent or sold under repurchasee agreements	569	209	778	782	762	244	1,006	1,010
Bonds, notes and subordinated notes	-	28,573	28,573	29,937	-	26,939	26,939	29,117
Liabilities in respect of derivative instruments	12,636	-	12,636	12,636	9,985	-	9,985	9,985
Other financial liabilities	1,320	5,763	7,083	7,053	2,804	4,328	7,132	7,107
Total financial liabilitiies	81,854	241,235	323,089	325,758	78,570	219,427	297,997	301,809
Off-balance sheet financial instruments								
Transactions whose balance represents credit risk	287	-	287	287	367	-	367	367

(a) Instruments are shown in the balance sheet at fair value.
(b) Other financial instruments for which fair value was calculated for disclosure purposes in this Note.

Note 8A – Items Measured for Fair Value on a Recurring Basis
Reported amounts

	30 September 2011 (Unaudited)				
	Fair value measurements using				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Effect of set-off agreements	Book value
	(NIS millions)				
Assets:					
Securities available for sale:					
Israeli government bonds	10,539	1,869	-	-	12,408
Foreign government bonds	399	210	10	-	619
Other corporate bonds	2,057	8,499	193	-	10,749
Asset-backed bonds	243	1,459	712	-	2,414
Shares available for sale	982	-	-	-	982
Total securities available for sale	14,220	12,037	915	-	27,172
Securities held for trading:					
Bonds held for trading	8,587	835	-	-	9,422
Shares held for trading	353	-	-	-	353
Total securities held for trading	8,940	835	-	-	9,775
Assets in respect of derivative financial instruments:					
Other interest contracts	134	6,010	59	-	6,203
Foreign currency contracts	249	4,530	197	-	4,976
Share contracts	229	7	-	-	236
Commodity and other contracts	23	58	-	-	81
Total assets in respect of derivative financial instruments:	635	10,605	256	-	11,496
Other	2,064	-	-	-	2,064
Total assets	25,859	23,477	1,171	-	50,507
Liabilities:					
Liabilities in respect of derivative financial instruments:					
Other interest contracts	131	6,242	331	-	6,704
Foreign currency contracts	250	4,621	747	-	5,618
Share contracts	229	9	-	-	238
Commodity and other contracts	23	53	-	-	76
Total liabilities in respect of derivative financial instruments	633	10,925	1,078	-	12,636
Other	1,851	215	-	-	2,066
Total liabilities	2,484	11,140	1,078	-	14,702

Note 8B – Changes in Items Measured for Fair Value on a Recurring Basis included in Level 3

Reported amounts

	For period of three months ending 30 September 2011 (Unaudited)					
	Changes in items measured for fair value included in Level 3					
	Fair value at beginning of the year	Total realized and unrealized profits (losses)	Net acquisitions, issues and extinguish-ments	Transfers to or from Level 3	Fair value at 30 September 2011	Unrealized profits (losses) in respect of instruments held at 30 September 2011
	(NIS millions)					
Assets:						
Bonds available for sale:						
Of governments	-	-	-	-	-	-
Of foreign governments	11	-	(1)	-	10	-
Of other companies	219	(3)	3	(26)	193	-
Asset-backed	690	(6)	28	-	712	(4)
Total bonds available for sale	920	(9)	30	(26)	915	(4)
Assets in respect of derivative financial instruments	240	(12)	28	-	256	76
Total assets	1,160	(21)	58	(26)	1,171	72
Liabilities:						
Liabilities in respect of derivative financial instruments	1,225	(137)	(10)	-	1,078	100
Total liabilities	1,225	(137)	(10)	-	1,078	100

	For period of nine months ending 30 September 2011 (Unaudited)					
	Changes in items measured for fair value included in Level 3					
	Fair value at beginning of the year	Total realized and unrealized profits (losses)	Net acquisitions, issues and extinguish-ments	Transfers to or from Level 3	Fair value at 30 September 2011	Unrealized profits (losses) in respect of instruments held at 30 September 2011
	(NIS millions)					
Assets:						
Bonds available for sale:						
Israeli government	-	-	-	-	-	-
Foreign governments	17	-	(7)	-	10	-
Other companies	204	15	-	(26)	193	15
Asset-backed	856	30	(174)	-	712	(1)
Total bonds available for sale	1,077	45	(181)	(26)	915	14
Assets in respect of derivative financial instruments	135	27	92	2	256	155
Total assets	1,212	72	(89)	(24)	1,171	169
Liabilities:						
Liabilities in respect of derivative financial instruments	1,102	(76)	52	-	1,078	(2)
Total liabilities	1,102	(76)	52	-	1,078	(2)

Note 9 – Net Interest Income before Provision for Doubtful Debts

Reported amounts (Unaudited)

	For the three months ending 30 September		For the nine months ending 30 September	
	2011	2010	**2011**	2010
	(NIS millions)		(NIS millions)	
A. Income on assets (a)				
Credit to the public	**6,845**	1,197	**11,958**	5,459
Credit to governments	**13**	(1)	**21**	11
Deposits with Bank of Israel and cash	**402**	(7)	**622**	159
Deposits with banks	**386**	101	**479**	(389)
Securities borrowed or purchased under agreement to resell	**10**	5	**36**	15
Debentures (d)	**1,335**	(49)	**1,974**	(454)
Total income on assets	**8,991**	1,246	**15,090**	4,801
B. Expenses on liabilities (a)				
Deposits of the public	**(8,130)**	1,727	**(8,891)**	1,887
Deposits from governments	**(16)**	12	**(22)**	(2)
Deposits from Bank of Israel	**-**	-	**-**	-
Deposits from banks	**(132)**	(151)	**(191)**	(97)
Securities loaned or sold under agreement to repurchase	**(30)**	1	**(35)**	(8)
Debentures, bonds and subordinated notes	**(521)**	(515)	**(1,560)**	(1,225)
Total expense on liabilities	**(8,829)**	1,074	**(10,699)**	555
C. From derivative instruments and hedging activities				
Ineffective portion of hedge relationships (b)	**4**	2	**4**	2
Net expenses from ALM derivative instruments (c)	**1,216**	(774)	**468**	(1,258)
Net income (expenses) from other derivative instruments	**6**	(10)	**13**	11
Total from derivative instruments and hedging activities	**1,226**	(782)	**485**	(1,245)
D. Other				
Financing commissions	**98**	95	**295**	288
Profits from sale of debentures available for sale, net (e)	**55**	78	**197**	174
Realized and unrealized profits (losses) in respect of fair value adjustments of trading debentures, net	**70**	29	**47**	210
Other financing income	**115**	92	**189**	499
Other financing income (expenses)	**(34)**	14	**(22)**	10
Total other income and expenses	**304**	308	**706**	1,181
Total net interest income before expenses in respect of credit losses	**1,692**	1,846	**5,582**	5,292
Of which: net, exchange difference	**(16)**	(13)	**(8)**	(11)
E. Detail of net effect of hedging derivative instruments on net interest income				
Financing income (expenses) on assets (f)	**(4)**	1	**(8)**	(5)
Financing income (expenses) on liabilities (f)	**(2)**	(2)	**2**	6

(a) Including effective portion of hedge relationships.
(b) Excluding effective portion of hedge relationships.
(c) Derivative instruments included in the Bank's asset and liability management system which are not designated for hedging relationships.
(d) Including interest and positive (negative) exchange rate differentials in respect of mortgage-backed bonds (MBS) in the amount of some NIS 123 million for the three months ending 30 September 2011 and NIS 118 million for the nine months ending 30 September 2011 (30 September 2010 – NIS 18 million and NIS 13 million, respectively).
(e) Including provision for impairment that was not temporary in nature.
(f) Reclassified.

Note 10 – Profits from Investments in Shares, Net (a)

Reported amounts (Unaudited)

	For the three months ending 30 September		For the nine months ending 30 September	
	2011	2010	**2011**	2010
	(NIS millions)		(NIS millions)	
Gains on sale of shares available for sale	**39**	-	**69**	45
Losses on sale of shares available for sale (b)	**(254)**	-	**(276)**	(13)
Realized and unrealized profits from adjustments to fair value of held for trading shares, net	**132**	(5)	**136**	-
Dividend on shares available for sale and on shares held for trading	**8**	19	**64**	156
Total from investments on shares	**(75)**	14	**(7)**	188

(a) Including mutual funds.

(b) Including provision for impairment that was not temporary in nature. During the current reporting period a provision was recorded under this item for impairment in Partner Communications Ltd.

Note 11 - Operating Segments

Reported amounts

	Statement of profit and loss for the three months ended 30 September 2011 (Unaudited)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before expenses in respect of credit losses:								
From outside entities -	517	287	964	831	(6)	(901)	-	1,692
Intercompany operations -	170	(46)	(525)	(453)	120	730	4	-
Total	687	241	439	378	114	(171)	4	1,692
Operating and other income:								
From outside entities -	420	125	107	107	102	(34)	5	832
Intercompany operations -	58	(14)	(29)	(9)	2	7	(15)	-
Total	478	111	78	98	104	(27)	(10)	832
Total income (expense)	1,165	352	517	476	218	(198)	(6)	2,524
Expenses in respect of credit losses	33	22	189	58	1	75	-	378
After-tax profit from extraordinary items	-	-	-	-	-	-	(1)	(1)
Net profit (loss) attributable to shareholders of the banking corporation	145	87	123	105	33	(309)	(29)	155

Note 11 - Operating Segments (cont'd)

Reported amounts

	Statement of profit and loss for the three months ended 30 September 2010 (Unaudited) (a)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before expenses in respect of credit losses:								
From outside entities -	362	268	803	463	(23)	(30)	3	1,846
Intercompany operations -	221	(42)	(350)	(96)	123	144	-	-
Total	583	226	453	367	100	114	3	1,846
Operating and other income:								
From outside entities -	425	123	114	110	110	73	28	983
Intercompany operations -	62	(15)	(32)	(9)	2	1	(9)	-
Total	487	108	82	101	112	74	19	983
Total income	1,070	334	535	468	212	188	22	2,829
Expenses (income) in respect of credit losses	46	36	(153)	127	4	(11)	(3)	46
After-tax profit (loss) from extraordinary items	-	-	-	-	-	1	(1)	-
Net profit (loss) attributable to shareholders of the banking corporation	64	70	343	53	22	65	(11)	606

(a) Reclassified.

Note 11 - Operating Segments (cont'd)
Reported amounts

	Statement of profit and loss for the nine months ended 30 September 2011 (Unaudited)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before expenses in respect of credit losses:								
From outside entities -	1,351	859	2,499	1,757	(43)	(842)	1	5,582
Intercompany operations -	595	(156)	(1,181)	(644)	364	1,011	11	-
Total	1,946	703	1,318	1,113	321	169	12	5,582
Operating and other income:								
From outside entities -	1,273	381	359	323	332	127	26	2,821
Intercompany operations -	169	(40)	(87)	(28)	8	23	(45)	-
Total	1,442	341	272	295	340	150	(19)	2,821
Total income (expenses)	3,388	1,044	1,590	1,408	661	319	(7)	8,403
Expenses (income) in respect of credit losses	28	26	148	98	(25)	74	-	349
After-tax profit from extraordinary items	-	-	-	-	-	-	2	2
Net profit (loss) attributable to shareholders of the banking corporation	339	271	645	339	138	(391)	(68)	1,273

Note 11 - Operating Segments (cont'd)
Reported amounts

	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	Statement of profit and loss for the nine months ended 30 September 2010 (Unaudited)							
	(NIS millions)							
Net interest income (loss) before expenses in respect of credit losses:								
From outside entities -	1,066	766	2,218	1,324	(32)	(56)	6	5,292
Intercompany operations -	563	(100)	(706)	(216)	335	126	(2)	-
Total	1,629	666	1,512	1,108	303	70	4	5,292
Operating and other income:								
From outside entities -	1,286	357	336	318	329	319	76	3,021
Intercompany operations -	180	(43)	(93)	(29)	7	3	(25)	-
Total	1,466	314	243	289	336	322	51	3,021
Total income	3,095	980	1,755	1,397	639	392	55	8,313
Expenses (income) in respect of credit losses	103	86	(35)	222	7	(6)	(5)	372
After-tax profit from extraordinary items	-	-	-	-	-	183	3	186
Net profit attributable to shareholders of the banking corporation	159	196	862	261	74	273	13	1,838

(a) Reclassified.

Note 11 - Operating Segments (cont'd)
Reported amounts

	Statement of profit and loss for the year ended 31 December 2010 (Audited) (a)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before expenses in respect of credit losses:								
From outside entities -	1,448	1,064	1,689	1,721	(50)	1,550	11	7,433
Intercompany operations -	769	(157)	379	(251)	457	(1,185)	(12)	-
Total	2,217	907	2,068	1,470	407	365	(1)	7,433
Operating and other income:								
From outside entities -	1,732	493	454	431	451	280	270	4,111
Intercompany operations -	237	(56)	(122)	(38)	10	3	(34)	-
Total	1,969	437	332	393	461	283	236	4,111
Total income	4,186	1,344	2,400	1,863	868	648	235	11,544
Expenses (income) in respect of credit losses	169	147	(71)	341	8	(6)	(4)	584
After-tax profit from extraordinary items	-	-	-	-	-	177	6	183
Net profit attributable to shareholders of the banking corporation	177	257	1,198	303	87	220	92	2,334

(a) Reclassified.

Note 12 – Miscellaneous Matters

1. Purchase of Bank Safdié

On 10 February 2011, an agreement (hereinafter: "the purchase agreement") was signed between Bank Leumi Le-Israel Ltd. (hereinafter: "Leumi"), directly or through a company under its control, and Island Tower Foundation, Helena S. Safdié, Levy Edmundo Safdié, and G.RS. Participations S.A.R.L., the owners of the Bank Safdié SA in Switzerland (hereinafter: “the acquired bank”), according to which Leumi will purchase, directly or through a company under its control, all of the share capital in the acquired bank, subject to conditions precedent specified in the agreement.

According to the purchase agreement, the basic consideration amount, before adjustments, will be based on the net asset value of the acquired bank, with the addition of a premium on the assets under management of the acquired bank on the date of the transaction’s closing, and it will be adjusted in accordance with the execution of a due diligence examination. The consideration on the date of closing is about SFR 143 million. This amount will be adjusted and updated within 60 days of the date of closing. The amount will also be adjusted in accordance with changes in the assets under management during the 24-month period following the date of the transaction’s closing, according to formulas agreed upon by the parties, and the finalizing of the purchase agreement.

In addition, the authorized bodies of the Bank and Bank Leumi Switzerland approved the merger between
Bank Safdié and Bank Leumi Switzerland, with Bank Leumi Switzerland being the receiving party. The merger is to take place on 3 January 2012 provided that all the required regulatory permits are received.

The transaction, according to the purchase agreement, is subject to the fulfillment of the conditions precedent specified in the purchase agreement, including the receipt of regulatory approvals from the Supervisor of Banks in Israel and from the Swiss banking supervision agency (FINMA), and the sale of the acquired bank’s branch in Brazil to the owners (the sellers). The conditions precedent are expected to be met within nine months from the date of signing the purchase agreement. The purchase agreement also includes understandings regarding the management of the acquired bank during the interim period between the signing and the transaction’s completion, for the purpose of preserving the acquired bank’s business.

Leumi intends to combine the acquired bank’s private banking activity with that of Bank Leumi (Switzerland), and thus to significantly increase the scope of activity of Bank Leumi (Switzerland).

2. Tnuva

On 2 March 2011, the Bank signed an agreement with M.B.S.T. Ltd. ("Mivtach"), for the purchase 13.5% (fully diluted) of the issued and paid up capital of AP. MS. TN. Ltd. ("the company") for consideration of about NIS 388.5 million. The company holds (indirectly) some 76.7331% of the total rights in the Tnuva Group.

On 20 June 2011, the purchase agreement expired, in light of the failure to meet the conditions precedent to complete the agreement.

3. TSI Roads Limited Partnership

On 31 December 2010, Leumi Partners Ltd. completed a transaction to invest (as a limited partner) in a limited partnership, TSI Roads Limited Partnership ("the partnership"), which acquired 50% in Derech Eretz Highways (1997) Ltd. ("Derech Eretz") (the franchisee of the toll road project known as Trans-Israel Highway (Route 6)). Leumi Partners' abovementioned investment amounted to some NIS

127 million, and Leumi Partners also committed to invest additional funds, if and when the bank guarantees provided to the State in connection with the franchise agreement for Route 6 are realized ("**the commitment for the guarantees**").

At the beginning of August 2011, Israeli Infrastructures Fund II (IIF 2011), a limited partnership, consisting of all the partners of the Partnership (except for Israeli Infrastructure Fund), purchased NIS 50 million worth of rights, and Leumi Partners thus holds 17.82% of the rights in the partnership after this purchase, and the amount of the commitment for the guarantees provided by Leumi Partners amounts to some NIS 62 million.

In addition, on 10 August 2011, Leumi Partners signed an agreement for an additional investment in the partnership (**"the Additional Investment"**). The Additional Investment is intended to enable the partnership to invest in Derech Eretz for the purpose of exercising the right of refusal by Derech Eretz vis-à-vis the State to purchase profit participation certificates, subordinate debt participation certificates and mezzanine debt participation certificates that the State is entitled to be allocated by virtue of an options agreement with Derech Eretz. On 14 August 2011, Derech Eretz informed the State that it would be exercising the right of first refusal, and the State notified Derech Eretz on its part that the notice of exercise of right of first refusal does not comply with the terms of the notice of proposal, the options agreement with the State, and with the provisions of the law. The matter was forwarded for arbitration proceedings between Derech Eretz, the State of Israel, and the entitled party declared by the State, and on 10 October 2011 a verdict was returned by the arbitrator dismissing the claim of Derech Eretz, and confirming the notice given by the State of the dismissal of the notice of exercise of right of refusal given by Derech Eretz.

Pursuant to the arbitration verdict, the State's participation certificates were sold to a party declared by the State to be entitled, and holdings of the partnership in Derech Eretz were diluted to 25.5%. On 13 September 2011, the partnership signed an agreement with Shikun UBinui Ltd. for the purchase of the complete holdings of Shikun Ubinui in Derech Eretz (25.5%). The agreement is contingent on conditions precedent, including approval by the State and approval by the senior lenders to Derech Eretz that have not yet been satisfied. The Board of Directors of the Bank approved an additional investment by Leumi Partners in the partnership, for a total of about NIS 132 million, with the addition of about NIS 70 million for commitments in respect of guarantees, for purposes of purchasing the holdings of Shikun Ubinui.

4. Employee Share Issue

On 17 May 2011, the Bank’s employees purchased, in accordance with and subject to arrangements and conditions detailed in the outline prospectus published on 6 April 2011, 6,339,730 shares (of these the Chairman and CEO 13,009 shares) held by the State of Israel representing 0.43% of the Bank's issued and paid-up share capital of the Bank, as at the date of publication of the outline prospectus. On 24 May 2011, the General Meeting of the Bank approved the offer of 9,442 shares to the Chairman of the Board of Directors of the Bank, and the grant of a loan by the Bank to purchase the shares. On 30 May 2011, the Bank was informed by the Ministry of Finance that on 29 May 2011, the sale of the shares to the Chairman of the Board of Directors was completed.

The price per share for purposes of the offer to participants according to the outline prospectus was NIS 13.20825 per share as at 19 January 2011, and this share price was linked to the consumer price index using the "last known index" method, with the base index being the index for the month of December 2010, that was published on 14 January 2011.

The share price was NIS 13.3002797 (The price of the shares purchased by the Chairman of the Board of Directors was NIS 13.37813).

The allocation of shares to the participants and determining the number of shares offered each participant, was made relative to the salary serving as a basis for social provisions for those participants for the month of January 2011, in accordance with the terms of the outline prospectus. The Chairman of the Board (as stated above) and the President and CEO of the Bank are included in the participants.

The shares will be blocked for a period of four years from the determining date (as defined in the outline prospectus), and will be deposited with a trustee.

In addition, the Audit Committee and the Board of Directors approved the granting of loans to the participants for the purchase of the shares offered in the outline prospectus.

The value of the benefit to the employees and to the Chairman of the Board of Directors in respect of the aforesaid purchase, which was assessed by an external valuer, includes a number of components, and amounts to some NIS 13 million. This amount was recorded as a salary expense. A benefit of NIS 13 million was recorded in a capital reserve.

To finance the purchase of the shares, the Bank extended loans to the employees amounting to some NIS 43 million, with repayment in one amount at the end of the blocked period of the shares, of which loans amounting to NIS 12 million are linked to the consumer price index, bearing interest at 1.55%, and loans amounting to NIS 31 million are unlinked based on the prime rate less 0.75%. The loans are not under non-recourse conditions. The amount of the loans was deducted from the Bank's capital, in accordance with the instructions of the Supervisor of Banks.

5. Indemnification of officers, persons with individual employment contracts who are not officers and other employees at the Bank:

- The Bank's liability to indemnify officers at the Bank and persons with individual employment contracts at the Bank was amended and updated so as to include an undertaking to indemnify in advance for expenses and/or for payment to a party injured by a violation in accordance with and subject to that stipulated in the Improvement of Enforcement Procedures in the Securities Authorities Law (Legislative Amendments), 2011 ("the Improvement of Enforcement Procedures Law"). In addition, the text of the above undertaking was updated, inter alia, in accordance with Amendment No. 14 to the Companies Law, and the list of events for indemnification in advance was updated for events which, in the view of the Audit Committee and the Board of Directors, are to be expected, in light of the current activity of the Bank, taking into account the changes and developments in the nature and scope of legal risks applicable to the Bank and the Group.

- The Bank undertook in advance to indemnify other employees of the Bank for expenses and/or for payment to a party injured by in accordance with and subject to that stipulated in the Improvement of Enforcement Procedures Law and in accordance with the usual terms in indemnities given by the Bank.

6. Distribution of dividend

At its meeting of 29 November 2010, the Board of Directors, having received an accounting and legal opinion that all of the conditions for a permitted distribution pursuant to the Companies Law and the Directives of the Supervisor of Banks had been fulfilled, recommended the approval of the distribution of an additional dividend in cash totaling NIS 500 million, (and in total, NIS 1.0 billion, including the NIS 500 million above). The total dividend amounts to NIS 1.0 billion, representing 53.8% of the profit for the first nine months of 2010. The additional dividend in the amount of some NIS 0.34 per share was paid to the shareholders on 27 January 2011, following the approval of the Special General Meeting of the Bank, held on 28 December 2010.

At its meeting of 29 March 2011, the Board of Directors, having received an accounting and legal opinion that all of the conditions for a permitted distribution pursuant to the Companies Law and the Directives of the Supervisor of Banks had been fulfilled, recommended the approval of the distribution of an additional dividend in cash totaling NIS 400 million, in addition to the cash dividend of NIS 1.0 billion which was distributed by the Bank in two equal tranches of NIS 500 million each as stated above. The additional dividend represented 17% of the Bank's net profit for 2010, with the total dividend being distributed in respect of 2010, NIS 1.4 billion, representing 59% of the Bank's net profit for 2010. The dividend of some NIS 0.27 per share was paid to shareholders on 28 June 2011, following the approval of the Annual General Meeting of the Bank held on 24 May 2011.

7. Lehman Brothers

In September 2008, following the collapse of the Lehman Brothers Investment Bank Group ("the Investment Bank"), a total of some $100 million in respect of the sale of a security issued by a member company of the Investment Bank Group ("the Security") was not repaid to the Bank. On 17 August 2011, a verdict of the Bankruptcy Court in the United States, with the consent of the parties, was handed down to dismiss the legal proceedings being conducted against the Bank in the United States by the trustee of Lehman Brothers Inc. ("LBI"), as a response to the legal proceedings being taken by the Bank in Israel to exhaust its legal rights for the recovery of the monies due to the Bank.

The agreement of the trustee of LBI to dismiss the legal proceedings against the Bank and against another Israeli bank arose from the fact that the Bank agreed to remove the attachment order it imposed on monies in Israel. The Bank's agreement to remove the order results from a number of arrangements the Bank reached with companies in the Investment Bank Group, including: legal proceedings in Israel between the Bank and Lehman Brothers International (Europe) ("LBIE") had finished; and proceedings in Israel against Lehman Brothers Holdings ("LBHI") and Lehman Brothers Securities N.V. will be closed.

The removal of the legal proceedings in Israel stemmed from the fact that the Bank reached an arrangement with the trustee over the assets of LBIE, whereby he would be permitted to exercise all of the attachment orders imposed on the rights of LBIE in Israel and to continue holding the security. The Bank exercised the aforesaid attachment orders and sold the security, for an aggregate total of NIS 210 million.

With respect to the said arrangements, the Bank recorded a gain of about NIS 143 million in the third quarter of 2011 (before tax).

Note 13 – Events after the Balance Sheet Date

At the beginning of November 2011, the Memorandum Law for Socio-Economic Change (Legislative Amendments) (Taxes), 2011 (hereinafter: "the Memorandum Law"). In the context of the Memorandum Law, it is proposed, *inter alia*, to cancel, as of 2012, the plan for reduction in the rate of the Companies Tax. It is also proposed in the context of the Memorandum Law to increase the rate of the Companies Tax to 25% in 2012. Furthermore, the rate of tax on inflation-adjusted capital gains and the rate of tax on inflation-adjusted betterment were also increased respectively. The overall tax rate for financial institutions will be 35.34%.

The balances of deferred taxes included in the financial statements as at 30 September 2011 are calculated according to tax rates prevailing at the date of the financial statements, and do not take into account any effects that may stem from the Memorandum Law. These effects will be included in the financial statements to be published commencing from the actual date of completion of the legislation.

The effect of implementation of the legislation, when completed, on the net profit for the year in which the legislation is completed, is expected to be positive.